

Institutional Logics of Corporate Governance and the Discourse on Executive Remuneration

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Abstract

Purpose: This PhD research examines how two different institutional logics of corporate governance have shaped the discourse on executive remuneration. Corporate Logic implies executives are intrinsically motivated and will act in the best interests of shareholders as long as their total remuneration is competitive and fair. On the other hand, Investor Logic implies executives are extrinsically motivated (opportunistic) and will only act in the best interests of shareholders if short- and long-term incentive schemes are designed appropriately.

Approach: The research has an interpretive methodology and consists of three phases. First, the diffusion of both Logics is examined through a content analysis of a large sample of corporate governance codes of practice and corporate annual reports. Second, how both Logics are embedded in the remuneration principles and practices that are recommended by code issuers and adopted by companies is scrutinised using discourse analysis. Third, how both Logics have shaped the beliefs and decision-making of non-executive directors, executives, and others is studied using discourse analysis.

Findings: Both Logics are embedded in the discourse on executive remuneration, although there has been a strengthening of Investor Logic over time. Both Logics co-exist as distinct from compete in the discourse because it has become taken-for-granted that executives should be remunerated comparably to other executives (Corporate Logic) and in line with shareholder returns (Investor Logic). Directors and others manage tension between Corporate Logic and Investor Logic by prioritising (or ordering) the Logics.

Theoretical implications: The research shows how competitive and institutional pressures influence how remuneration decisions are made and reported. However, institutional change is complex because companies influence and are influenced by code issuers and others.

Practical implications: As both Logics are embedded in the beliefs of companies, code issuers and others, executive remuneration practices have become unnecessarily complex and convoluted. The case for a simpler approach to executive remuneration is advanced.

Chapter 1: Introduction

“The directors of [joint stock] companies... being the managers rather of other people’s money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to... very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.”

(Adam Smith, 1776, *The Wealth of Nations*, p.941)

“How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it... [S]entiment... is by no means confined to the virtuous and humane... The greatest ruffian... is not altogether without it.”

(Adam Smith, 1790, *The Theory of Moral Sentiments*, p.3)

1.1. Introduction

How do chief executives officers and their direct reports (hereinafter, executives) behave if they receive mainly fixed or variable (performance-based) remuneration? In the spirit of Adam Smith’s (1776) *The Wealth of Nations*, agency theorists argue that if executives receive mainly fixed remuneration, they will aim to increase firm size and decrease firm risk in order to increase and protect their salaries; whereas if executives receive mainly variable remuneration, they will optimise firm size and risk in order to maximise their own wealth and, consequently, shareholder value (Jensen and Meckling, 1976; Jensen and Murphy, 1990b). Executives are portrayed as agents who are capable of maximising shareholder value, but only if the short- and long-term incentive schemes are designed in such a way as to align their interests with those of shareholders. This set of beliefs is known as Investor Logic (Zajac and Westphal, 2004).¹ In the spirit of Adam Smith’s (1790) *The Theory of Moral Sentiments*, stewardship theorists argue that irrespective of whether executives receive mainly fixed or variable remuneration, they will act in the best interests of shareholders (Davis et al., 1997; Donaldson, 1990). Executives are portrayed as stewards who are motivated by intrinsic rewards and a sense of sentiment and duty. This set of beliefs is known as Corporate Logic (Zajac and Westphal, 2004).

¹ Zajac and Westphal (2004) used the term Agency Logic, rather than Investor Logic. However, the term Investor Logic is used in order to distinguish agency theory from Investor Logic.

The present study investigates the beliefs of non-executive directors (hereinafter, directors), executives, representatives of code issuers (e.g. regulators, stock exchanges and directors' associations) and, to a lesser extent, remuneration consultants in order to understand and explain how Corporate Logic and Investor Logic have shaped the discourse on executive remuneration in Australia (AU), New Zealand (NZ) and the United Kingdom (UK). Corporate Logic and Investor Logic are institutional logics of corporate governance.

Thornton and Ocasio (1999, p.804) define institutional logics as:

“[T]he socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality...”

Corporate governance is constituted by the relationships, processes and systems, both internal and external to the publicly listed company², which influence and are influenced by the board of directors³ (du Plessis et al., 2005; Solomon, 2007). As a subset of corporate governance, executive remuneration is constituted by principles, practices and processes that concern how much and how executives should be and are remunerated and how remuneration decisions should be and are reported. By studying discourse⁴, it is recognised that the social reality of directors, executives and others is constructed by institutional logics, of which there are many within any given organisational field⁵ (Friedland and Alford, 1991; Phillips et al., 2004; Thornton et al., 2005).

² There are many forms of organisation, but this research is limited to the publicly listed company (hereinafter, company).

³ This includes the board's sub-committees such as the remuneration committee. The remuneration committee is responsible for evaluating the Chief Executive Officer (CEO) and making a recommendation of his/her remuneration to the board, and approving the CEO's recommendations on the remuneration of his/her direct reports (e.g. Chief Financial Officer and Chief Operating Officer), as well as designing the remuneration policies for the companies (Australian Stock Exchange (ASX) Corporate Governance Council, 2010; Financial Reporting Council, 2010). However, some companies do not have remuneration committees or delegate more/less responsibility to the remuneration committee than is described here (Hermanson et al., 2011; Main et al., 2008; Perkins and Hendry, 2005).

⁴ Discourse is interpreted to mean talk, texts and other artefacts that are produced and consumed by individuals, and in consuming discourse, individuals construct, reconstruct and make sense of their social reality (Alvesson and Kärreman, 2000; Phillips and Hardy, 2002). Further, Hall (2001, p.72) points out that discourse “‘rules in’ certain ways of talking about a topic, defining an acceptable and intelligible way to talk, write or conduct oneself... [as well as] ‘rules out’, limits and restricts other ways of talking, of conducting ourselves in relation to the topic or constructing knowledge about it.” In this respect, institutional logics are a strong form of discourse that enables and constrains organisational decision-making (see Grand Discourse and Mega-Discourse in Alvesson and Kärreman, 2000, pp.1133-1134).

⁵ In the context of the present study, an organisational field consists of companies that are listed on the same stock exchange and the parties in society that are interested in (or have a stake in) the affairs of these

Several aspects of the discourse on executive remuneration are studied. Most prior research on executive remuneration has a positivist methodology and uses quantitative methods to examine the relationship between executive remuneration and firm performance (for reviews, see Devers et al., 2007; Gerhart et al., 2009). This research differs as an interpretive methodology is adopted and qualitative methods are used to deconstruct and make sense of the discourse on executive remuneration. Extending the research of Point and Tyson (2006), Wade et al. (1997) and Zajac and Westphal (1995), content and discourse analysis are used to study how institutional pressures in the form of corporate governance codes of practice (hereinafter, codes) influence how remuneration decisions are reported in corporate annual reports. Advancing prior qualitative research on remuneration committees (e.g. Bender, 2004; Hermanson et al., 2011; Main et al., 2008), this thesis scrutinises the talk of directors, executives, remuneration consultants and representatives of code issuers in order to shed further light on how competitive and institutional pressures influence how remuneration committees make and report remuneration decisions. This enables the investigation of how both Corporate Logic and Investor Logic, which have opposing implications for executive remuneration, are able to co-exist in the discourse.

The chapter is organised as follows. Section 2 discusses what motivated me to undertake this research. This includes my personal and academic reasons. Section 3 outlines the architecture of the research. The implications of Corporate Logic and Investor Logic for executive remuneration are detailed. The prior research on which the present study builds is briefly reviewed. The gap in prior research and how it is investigated, in the form of three research questions, is articulated. Section 4 presents a brief overview of the nine chapters that form the body of this PhD thesis. How it contributes to knowledge is also discussed. Concluding remarks are made in Section 5.

1.2. Motivation for My PhD Research

My impetus for carrying out this research arose from a curiosity about how directors and others believe executives are motivated. In addition, I was curious as to how academic ideas such as those encapsulated in agency theory and stewardship theory influence what directors

companies such as customers, employees, investors, media, regulators, and suppliers (including remuneration consultants and other advisors to boards) as well as associations of advisors (e.g. accountants and lawyers), directors, executives, investors and others.

and others believe. As an academic who enjoys both researching and teaching, I believe that I am motivated by intrinsic and, to a lesser extent, extrinsic rewards. However, I was puzzled by the short- and long-term incentive schemes that form part of the remuneration package for executives. Such arrangements imply that executives are capable of calculating the course of action that they and their companies should undertake in order to maximise their incentive payments. This does not appear to be realistic given that executives are rationally bounded or have limited calculative abilities (March and Simon, 1993). Thus, I wondered if the beliefs of directors and others may be compelling them to recommend or enact incentive schemes that, ultimately, cannot influence executives in the way that agency theory implies. Further, I was also concerned that incentive schemes may alter executives' beliefs and teach them to be opportunistic and to be motivated by extrinsic rewards (Frey and Osterloh, 2005; Ghoshal, 2005).

Much of my original motivation for carrying out this research was generated by a concern in by some in the academic community that agency theory has unwarrantedly dominated the research agenda (Ferraro et al., 2005; Frey and Osterloh, 2005; Ghoshal, 2005; Lubatkin, 2005). Ghoshal (2005, p.77) argues that, "this ideology has led management research increasingly in the direction of making excessive truth claims based on partial analysis and both unrealistic and biased assumptions." Further, agency theory may be a self-activating ideology because it assumes that executives are self-interested (Arce, 2007). If agency theory (Jensen and Meckling, 1976; Fama, 1980) is interpreted normatively, then shareholders and directors will believe that executives are self-interested and will use incentives and controls to align the interests of executives with those of shareholders. However, using incentives and controls will signal to executives that they cannot be trusted and are expected to act opportunistically, which encourages the type of behaviour that the incentives and controls are trying to avoid (Ghoshal and Moran, 1996; Davis et al., 1997; Miller, 1999; Ghoshal, 2005). Thus, Ghoshal (2005) believes that this potential for self-activation makes agency theory bad for practice.

After some time, my motivation shifted from a concern about how agency theory has affected practice to fascination with how beliefs in general can become diffused and institutionalised in the discourse of business and society. For example, the ideology of shareholder value maximisation as the corporate objective and executive share option schemes became widely diffused in companies from the United States of America (US) during the 1990s (Boyer,

2005; Englander and Kaufman, 2004; Lazonick and O'Sullivan, 2000; and Zajac and Westphal, 2004). This is consistent with a strengthening of Investor Logic. Neo-institutional sociology provides a theoretical lens through which the diffusion and institutionalisation of beliefs and practices, which are borne out of beliefs, can be studied (DiMaggio and Powell, 1983; Scott, 2008). Competitive and institutional pressures compel companies to become increasingly similar over time. However, companies can resist these pressures as their conformance to societal expectations can be symbolic. For example, Westphal and Zajac (1998) found that US investors reacted favourably to companies that adopted long-term incentive schemes particularly when justified with the agency principle,⁶ but many of these companies did not actually implement these schemes. This illustrates that the process of diffusion and institutionalisation is not straightforward. Much research was and still is required.

After reading Zajac and Westphal (2004), an institutional logics perspective was adopted for the present study. They found (2004, p.433):

“[T]he [stock] market’s reaction to particular corporate practices, such as stock repurchase plans, are not, as financial economists contend, simply a function of the inherent efficiency of such practices. Rather, stock market reactions are also influenced by the prevailing institutional logic and the degree of institutionalization of the practice.”

Other prior research that has adopted an institutional logics perspective is also instructive (e.g. Alford and Friedland, 1985; Dune and Jones, 2010; Reay and Hinings, 2009; Thornton and Ocasio, 1999). The present study is differentiated from this prior research in that it investigated how Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration as a whole. Zajac and Westphal’s (2004) conclusion that there has been a transition from Corporate Logic to Investor Logic in terms of what is the legitimate discourse in society is based on investors’ changing reactions to the adoption of stock repurchase plans and, to a lesser extent, long-term incentive schemes. However, the discourse on executive remuneration is complex and multi-faceted. Long-term incentive schemes and how they are justified (e.g. the agency principle) are a significant but small part of that discourse. To understand how Corporate Logic and Investor Logic are embedded in the discourse and the extent to which there has been a transition requires many aspects of the

⁶ The agency principle states that short- and long-term incentive schemes can align the interests of executives with those of shareholders.

discourse to be studied. Thus, executive remuneration principles, practices and processes are investigated.

1.3. Research Architecture

Table 1.1 outlines the differences between Corporate Logic and Investor Logic. Zajac and Westphal's (2004) definitions of both Logics are reiterated and then extended. The rationale for this extension of their work is located in Chapter 2, Section 2.5 and Chapter 3, Sections 3.3 and 3.6. Corporate Logic is part of the Mega Discourse on managerial capitalism, epitomised by John Kenneth Galbraith's (1967) *The New Industrial State*, where the economy is dominated by mega corporations that are controlled by specialist executives. Stewardship theory portrays executives as motivated by intrinsic rewards and willing to act in the shareholders' best interests without the need for coercion (Davis, et al., 1997; Donaldson, 1990). They are not driven to maximise their own wealth, but they are driven to maximise shareholder value, which will result in economic efficiency and growth (Englander and Kaufman, 2004; Kaen et al., 1988). On the other hand, Investor Logic is part of the Mega Discourse on investor capitalism, epitomised by Milton Friedman's (1962) *Capitalism and Freedom*, where competitive markets hold corporations and their generalist executives to account, which will also result in economic efficiency and growth (Ghoshal, 2005; Kaen et al., 1988). Agency theory portrays executives as motivated by extrinsic (monetary) rewards and opportunistic (Davis et al., 1997; Ghoshal, 2005). While capable of maximising shareholder value, they will only do so if short- and long-term incentive schemes are designed appropriately (Jensen and Murphy, 1990b).

Table 1.1: Corporate Logic and Investor Logic

Key Facets	Corporate Logic ¹	Investor Logic ¹
Links to Mega Discourses (or higher-order cultural frames)	<ul style="list-style-type: none"> - Managerial capitalism: top management have primary responsibility for allocating resources to different businesses in the corporation - Norms of professional autonomy 	<ul style="list-style-type: none"> - Investor capitalism: shareholders can diversify better and more easily than firms - Logic of capitalist markets
Links to theories of organisation	<ul style="list-style-type: none"> - Managerialist theory (Chandler, 1962) - <i>Stewardship theory</i> (Davis et al., 1997; Donaldson, 1990) 	<ul style="list-style-type: none"> - Agency theory (Jensen and Meckling 1976)
Corporate objective	<ul style="list-style-type: none"> - <i>Shareholder value maximisation</i> (Donaldson, 1990; Sundaram and Inkpen, 2004a) 	<ul style="list-style-type: none"> - <i>Shareholder value maximisation</i> (Jensen, 2001; Sundaram and Inkpen, 2004a)
Behavioural model of executives	<ul style="list-style-type: none"> - Professionals with unique strategic knowledge that is required for efficient allocation of corporate resources - Stewards of their organisations - <i>Executives are motivated by intrinsic rewards</i> (Davis et al., 1997; Frey and Osterloh, 2005) 	<ul style="list-style-type: none"> - Relatively fungible agents of shareholders - Pursue strategies that advance personal interests at expense of shareholders - <i>Executives are motivated by extrinsic rewards</i> (Davis et al., 1997; Jensen and Murphy, 1990b)
Remuneration philosophy	<ul style="list-style-type: none"> - Use salary and other rewards to attract and retain scarce managerial talent - <i>“Fixed Pay: Recruit good people → Pay them well → Expect good performance”</i> (Anthony and Govindarajan, 2007, p.524) 	<ul style="list-style-type: none"> - Use incentives to align management and shareholder interests - <i>“Performance-Based Pay: Recruit good people → Expect good performance → Pay them well if performance is actually good”</i> (Anthony and Govindarajan, 2007, p.524)
Remuneration principles	<ul style="list-style-type: none"> - <i>Fairness: Vertical equity between executives and employees</i> - <i>Human resources: Remuneration tailored to executives’ preferences</i> - <i>Market: Horizontal equity between executives in similar roles, i.e. executives are paid comparably to their peers</i> <p>(See Chapter 3, Table 3.2)</p>	<ul style="list-style-type: none"> - <i>Agency: Use incentives to align executives’ interests with those of shareholders</i> - <i>Motivation: Use monetary incentives to motivate executives</i> - <i>Pay-for-performance: Executives paid well only if firm performance meets or exceeds expectations</i> <p>(See Chapter 3, Table 3.2)</p>
Remuneration practices	<ul style="list-style-type: none"> - <i>Performance measures: Internal; financial and non-financial</i> - <i>Desired mix: Mainly fixed remuneration</i> - <i>Level: Positioned at the median relative to other executives in similar roles, although the level may be constrained by the rate of change in employees’ salaries and wages.</i> <p>(See Chapter 3, Sections 3.4 and 3.6)</p>	<ul style="list-style-type: none"> - <i>Performance measures: External, e.g. Economic Value AddedTM and total shareholder return</i> - <i>Desired mix: Mainly variable remuneration</i> - <i>Level: Positioning depends on firm performance (e.g. high relative firm performance will mean that executives are paid at the upper quartile relative to other executives in similar roles)</i> <p>(See Chapter 3, Sections 3.4 and 3.6)</p>
Remuneration processes	<ul style="list-style-type: none"> - <i>The board and remuneration committee are strategic advisors to executives</i> - <i>Executives have input into how their remuneration is structured</i> <p>(See Chapter 3, Sections 3.5 and 3.6)</p>	<ul style="list-style-type: none"> - <i>The board and remuneration committee, comprised of mainly independent non-executive directors, monitor executives and contract with them at arm’s length</i> <p>(See Chapter 3, Sections 3.5 and 3.6)</p>
<p>1 These columns are verbatim from Zajac and Westphal (2004, p.436), except for the <i>italicised</i> text. The <i>italicised</i> text is based on my understanding of Corporate Logic and Investor Logic. Further explanation of both Logics is provided in Chapters 2 and 3.</p>		

The normative implications of Corporate Logic and Investor Logic for executive remuneration are not articulated in any depth by Zajac and Westphal (2004). However, both Logics have significant and wide-ranging normative implications as shown in Table 1.1. Corporate Logic is akin to a fixed pay philosophy, where executives are remunerated competitively and fairly. As executives are stewards who put shareholders' interests ahead of their own, monitoring and incentives are not required to the extent that Investor Logic implies (Davis et al., 1997; Donaldson, 1990). On the other hand, Investor Logic is akin to a variable pay philosophy, where executives are remunerated for their individual contributions to firm performance (i.e. meritocracy). As executives are agents who put their interests ahead of shareholders' interests, monitoring (e.g. boards and remuneration committees comprised of mainly independent non-executive directors) and incentives (e.g. executive share option schemes) are required (Fama, 1980; Jensen and Murphy, 1990b). Further, executives should be evaluated using external (market-based) measures of firm performance, rather than internal (accounting) measures of performance because external measures are less susceptible to manipulation by executives (Jensen, 2001; Jensen et al., 2005; Stern et al., 1997). While Corporate Logic denies that there is a widespread agency problem, Investor Logic assumes that there is such a problem and it can only be resolved with incentive schemes.

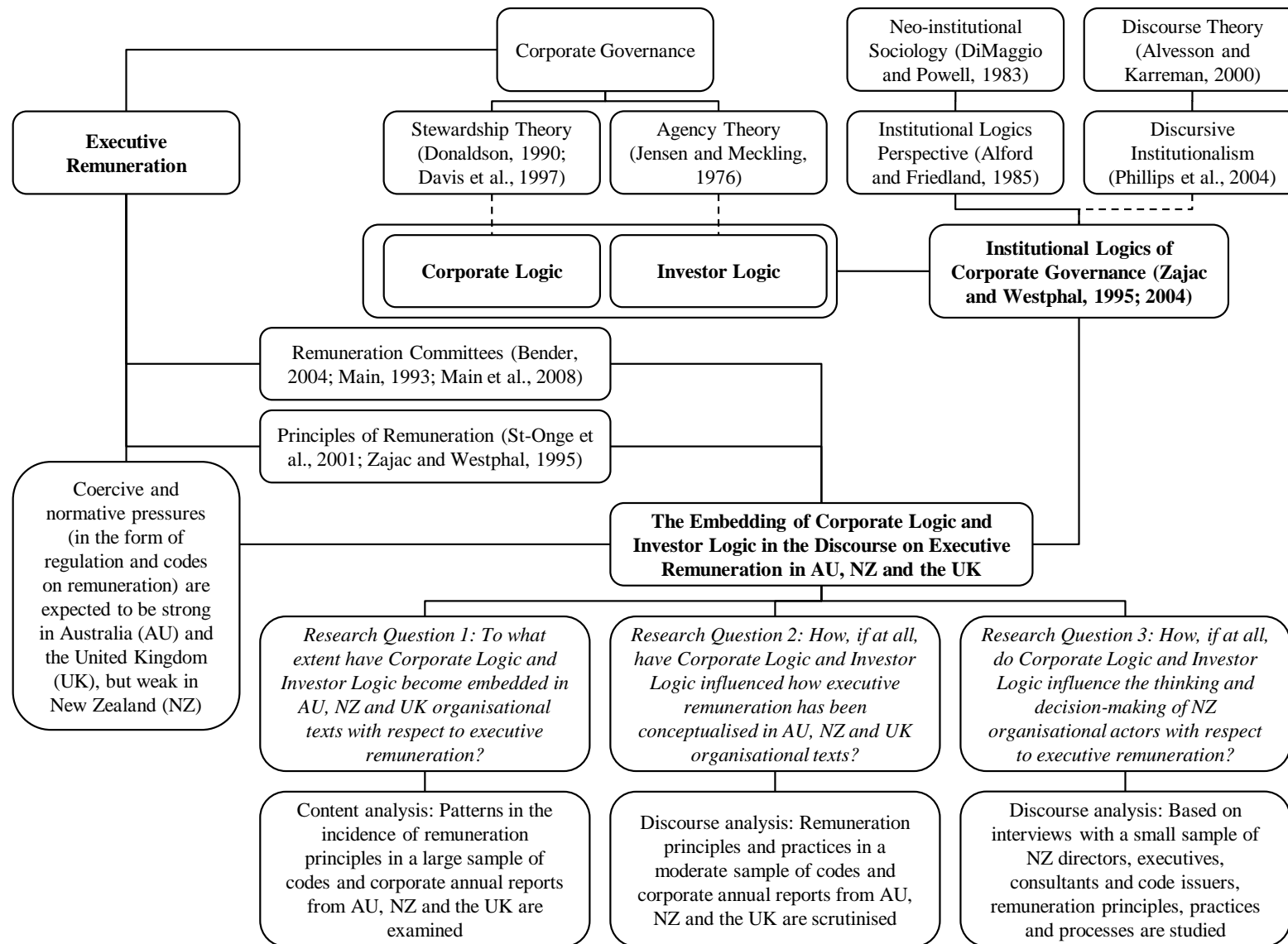
There is a small but growing body of research on institutional logics in general (for a review, see Thornton and Ocasio, 2008) and on Corporate Logic and Investor Logic (Green et al., 2008; Lok, 2010; Shipilov et al., 2010; Zajac and Westphal, 2004).⁷ The latter research has investigated several aspects of corporate governance. Notably, Zajac and Westphal (2004) found that there had been a transition from Corporate Logic to Investor Logic in terms of what US investors perceive as the legitimate discourse. However, their earlier research revealed that both Logics were embedded in US companies' discourse (Zajac and Westphal, 1995). Interestingly, they found that both logics are embedded in US companies' justifications of the adoption of long-term incentive schemes, although there was a strengthening of Investor Logic over time. Further, Lok (2010) found that both Logics were embedded in UK discourse on corporate governance, but executives and investors managed their institutional identities in such a way that one of the Logics was de-emphasised. However, this prior research has not investigated many of the implications that Corporate

⁷ Zajac and Westphal's earlier work is also relevant (see Westphal and Zajac, 1998 and 2001; Zajac and Westphal, 1995). However, Zajac and Westphal (2004) is their first work to explicitly have an institutional logics perspective. Further, researchers have also studied Investor Logic and alternative Logics (e.g. Fiss and Zajac, 2004). These and other relevant studies are reviewed in Chapter 2, Section 2.5.

Logic and Investor Logic have for executive remuneration. There is a significant gap in knowledge on how Corporate Logic and Investor Logic shape the discourse on executive remuneration.

Figure 1.1 outlines the architecture for this research, from the theoretical foundations at the top to the research questions and methods at the bottom. Prior research that has had a strong influence on the present study is noted. Remuneration principles, practices and processes are investigated in order to generate insight into how Corporate Logic and Investor Logic are embedded in (and able to co-exist in) the discourse on executive remuneration that is produced by companies, code issuers and, to a lesser extent, remuneration consultants. As a result, this research draws on prior research from four broad fields of inquiry: Mainstream corporate governance research (e.g. agency and stewardship theories); qualitative research on executive remuneration (including on how remuneration committees make decisions); an institutional logics perspective (i.e. the study of how beliefs, norms, rules and values enable and constrain organisational decision-making); and discursive institutionalism (i.e. the study of how individuals and organisations use discourse to construct and interpret their social realities). The present study is the first to examine the discourse on executive remuneration, as a whole, from an institutional logics perspective, and, therefore, it has broad, exploratory research questions. These are discussed next.

Figure 1.1: Research Architecture



Three countries, AU, NZ and the UK, were selected as opportune sites to study Corporate Logic and Investor Logic for the following reasons. First, Corporate Logic is likely to be weak in the US because Wall Street exerts much pressure on executives to meet quarterly earnings targets (Boyer, 2005; Jensen, 2005; Zajac and Westphal, 2004). The US is not an opportune site to study the tension between Corporate Logic and Investor Logic. Second, Corporate Logic is likely to be stronger in AU, NZ and the UK compared to the US because AU, NZ and UK companies have comparatively conservative approaches to executive remuneration (Conyon and Murphy, 2000; Fernandes et al., 2009; Mishel et al., 2007). Third, despite this conservative approach, there has been much public outrage in AU and the UK, but not in NZ, over cases of executives receiving large pay increases for no apparent reason or when their companies have (almost) failed (AU: Productivity Commission, 2009; UK: Chambers and Weight, 2008). Consistent with a strengthening of Investor Logic, AU and UK Governments have bolstered remuneration disclosure requirements and shareholder rights (e.g. AU's Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004; UK's The Directors' Remuneration Report Regulations 2002). Thus, there may be a tension between Corporate Logic and Investor Logic in AU and UK, but not NZ.

The tension between Corporate Logic and Investor Logic in three different organisation fields is investigated. The UK has been the leader in corporate governance reform, although business has led much of this reform (Jones and Pollitt, 2004; Solomon, 2007). It has provided a blueprint for corporate governance reform in other countries (Enrione et al., 2006). AU rapidly adopted the UK's reforms (Hill, 2006, 2008). In addition, AU and UK code issuers have produced many official reports and codes that include discussion of and recommendations on corporate governance and executive remuneration (Chambers and Weight, 2008; du Plessis et al., 2005; Solomon, 2007). These changes are indicative of a strengthening of Investor Logic. However, prior research has not studied how these changes in AU and the UK have influenced how Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration. Further, while there have been changes in NZ, the changes in terms of executive remuneration have been negligible (see Chapter 4, Section 4.2 and Chapter 7, Section 7.2). Thus, NZ is an opportune site to study how both Logics are embedded in the discourse in the near-absence of regulation and codes related to executive remuneration.

The objective of this research is to study how Corporate Logic and Investor Logic have shaped the discourse on executive remuneration. Given the preceding discussion, the research questions are as follows:

1. To what extent have Corporate Logic and Investor Logic become embedded in AU, NZ and UK organisational texts with respect to executive remuneration?
2. How, if at all, have Corporate Logic and Investor Logic influenced how executive remuneration has been conceptualised in AU, NZ and UK organisational texts?
3. How, if at all, do Corporate Logic and Investor Logic influence the thinking and decision-making of NZ organisational actors with respect to executive remuneration?

The research questions represent three sequential phases in which the discourse on executive remuneration is studied in different ways. First, Research Question 1 is addressed by studying the incidence of six remuneration principles (see Table 1.1) that are related to either Corporate Logic or Investor Logic, not both, in a sample of 68 codes and 414 corporate annual reports from AU, NZ and the UK, produced between 1989 and 2010. This period is selected so that the effects of the corporate governance reforms can be observed. Second, Research Question 2 is addressed by examining how remuneration principles and practices are framed in a sample of 55 codes and 75 corporate annual reports from AU, NZ and the UK, produced between 1989 and 2010. Third, Research Question 3 is addressed by analysing remuneration principles, practices and processes in the discourse of directors, executives, remuneration consultants and representatives of code issuers. While Research Questions 1 and 2 involved gathering data from organisational texts, Research Question 3 involved gathering data from 33 interviews.

1.4. Overview of this Thesis and Contribution to Knowledge

There are nine chapters in this thesis. A brief overview of each chapter, except this chapter, is provided below including this research's contribution to knowledge.

The literature review is presented in Chapters 2 and 3. Four aspects of corporate governance theories and research are discussed in Chapter 2: The prescriptions of academics and regulators, theories of executive remuneration, institutional theory and the institutional logics perspective, and institutional logics of corporate governance. In terms of the latter, prior research is reinterpreted using a new and original framework that conceptualises institutional logics of corporate governance including but not limited to Corporate Logic and Investor

Logic. Chapter 3 then reviews prior research on executive remuneration and discusses how Corporate Logic and Investor Logic are embedded in a range of remuneration principles, practices and processes. Tensions between remuneration principles and between remuneration practices are explored. Also, particular attention is given to the effects of competitive and institutional pressures on how remuneration committees make and report remuneration decisions. Overall, Chapters 2 and 3 contribute to knowledge by advancing Zajac and Westphal's (2004) work on Corporate and Investor Logic into the realm of executive remuneration as well as developing frameworks for synthesising prior research on institutional logics of corporate governance (see Chapter 2, Table 2.3) and prior qualitative research on remuneration committees (see Chapter 3, Figure 3.1 and Table 3.5).

The research objective, questions, methodology and methods are discussed in Chapter 4. Two types of discourse on executive remuneration (public/texts and private/talk) produced by two different parties (companies and code issuers) are studied. AU, NZ and the UK are the subject of study in the first two phases of this research, while only NZ is studied in the third phase. First, extending research by Point and Tyson (2006) and Zajac and Westphal (1995), the present study examines the incidence of six remuneration principles in a large sample of corporate annual reports and codes from AU, NZ and the UK that span 1989 to 2010. Second, a new and original approach is taken to the study of the discourse on executive remuneration in a moderate sample of corporate annual reports and codes from AU, NZ and the UK that spans 1989 to 2010.⁸ Third, building on qualitative research on remuneration committees (e.g. Bender, 2004; Main, 1993; Main et al., 2008), the talk of directors, executives, consultants and code issuers is also deconstructed and interpreted. Overall, this research is differentiated from prior research because an institutional logics perspective is adopted and both content and discourse analysis are used to study talk and texts.

The findings from the content and discourse analyses are presented in Chapters 5 and 6, respectively. Chapter 5 explores the incidence of remuneration principles and, consequently, Corporate Logic and Investor Logic in three parts. First, the incidence in codes is examined. Second, the incidence in corporate annual reports is analysed. Third, the overall pattern of diffusion of remuneration principles and, consequently, Corporate Logic and Investor Logic is studied. There has been a shift from no Logics to both Logics, although Investor Logic is

⁸ While Point and Tyson (2006) used thematic content analysis to explore 23 corporate annual reports, this study used discourse analysis to deconstruct and interpret 75 corporate annual reports and 55 codes.

stronger than Corporate Logic. The practiced version of Corporate Logic is different to the theoretical version because the fairness principle is much less widely diffused than other principles (see Table 1.1). Chapter 6 illustrates that remuneration principles are closely tied to remuneration practices, although remuneration practices are justified with a range of remuneration principles. This shows that companies have much discretion in how they design remuneration practices. However, a standard remuneration package for executives is recommended by code issuers and adopted by companies. Changes in this package over time have been changes in form, but not substance. On the whole, Chapters 5 and 6 contribute to knowledge by documenting and explaining how both Logics are able to co-exist in the discourse on executive remuneration.

Chapter 7 presents the findings from the discourse analysis of the talk of 16 directors, 5 executives, 7 consultants and 5 code issuers from NZ. However, the findings are heavily skewed towards the talk of the directors and executives because consultants and code issuers have a limited influence on how remuneration decisions are made and reported. Directors and executives are dismissive of NZ code issuers and their codes. Instead, the discourse analysis closely scrutinises the beliefs of directors and executives and what and who they perceive to influence their decisions (e.g. investors), as well as how directors balance tensions between what they perceive as the rational (or efficient) course of action and the legitimate course of action. In terms of the latter, directors believe that some recruitment and remuneration decisions are sub-optimal because the public, particularly investors, would not support the optimal decisions. Further, both Corporate Logic and Investor Logic are deeply embedded in the talk of directors and executives. However, Investor Logic may be symbolic and Corporate Logic may be substantive because the human resources/market principles are prioritised ahead of agency/pay-for-performance principles. Chapter 7 contributes to knowledge by explaining how both Logics can co-exist in the discourse, despite directors and others having a range of beliefs, and tensions existing between remuneration principles and between remuneration practices.

The findings from Chapters 5, 6 and 7 are discussed in Chapter 8 and conclusions drawn in Chapter 9. There are four parts to the discussion presented in Chapter 8. First, the definitions of Corporate Logic and Investor Logic are revisited and the likely distribution of beliefs amongst directors, investors, code issuers and others is contemplated. Reasons why both Logics co-exist are considered. Second, the origins of both Logics and the process by which

both Logics may be been diffused are pondered. It appears that societal support for each of the Logics has waxed and waned over time. Third, the process of making and reporting remuneration decisions is revisited from an institutional logics perspective. Particularly attention is given to how competitive and institutional pressures influence remuneration committees. Fourth, the concept of the institutional position is introduced. This is an original and novel concept. It illustrates how there can be much variety between companies despite both Logics being embedded in all companies' discourse as well as how tensions can arise when symbolic conformance is discovered by society. Finally, Chapter 9 outlines the research's main findings and contributions to knowledge as well as the theoretical and practical implications.

The most significant contributions to knowledge that the present study makes are as follows. First, Zajac and Westphal's (2004) conceptual work on Corporate Logic and Investor Logic is extended (see Chapter 2, Section 2.5 and Chapter 3, Sections 3.3 and 3.6). Second, the findings show how both Logics are able to co-exist in the discourse on executive remuneration, despite an apparent strengthening of Investor Logic (i.e. corporate governance reform) (see Chapters 5 and 6). Third, the findings extend prior qualitative research on remuneration committees (e.g. Bender, 2004; Hermanson et al., 2010; Main et al., 2008) by studying how both Logics influence how remuneration decisions are made and reported (see Chapter 7). Fourth, the processes by which both Logics have been diffused and institutionalised are clarified including how competitive and institutional pressures influence remuneration decision-making (see Chapter 8). Fifth, an original concept, the institutional position, is introduced and used to further explain how companies can manage societal expectations (or institutional pressures). This demonstrates that both Logics can be substantive or symbolic in nature (see Chapter 8). These and other contributions to knowledge are discussed in Chapter 9. Thus, this research makes a significant contribution to knowledge in the fields of corporate governance and neo-institutional sociology.

1.5. Conclusion

Adam Smith (1776; 1790) presents a pragmatic but inconsistent portrayal of human behaviour. People are portrayed as greedy and opportunistic in some passages, while they are motivated by sentiment and duty in other passages. This underscores that there are multiple competing beliefs within societal discourse. Two sets of opposing beliefs, Corporate Logic and Investor Logic, are studied with respect to how both Logics are embedded in the

Chapter 1: Introduction

discourse on executive remuneration in AU, NZ and the UK, whether each of the Logics has become stronger or weaker over time, and how both Logics influence how remuneration decisions are made and reported. Particular attention is given to remuneration principles, practices and processes within the talk and texts of companies, code issuers and, to a lesser extent, remuneration consultants. The research contributes to knowledge by building on and extending Zajac and Westphal's (2004) work. It generates much insight into how both Logics are able to co-exist in the discourse on executive remuneration. The next chapter reviews the literature on corporate governance, executive remuneration and then discusses prior research on Corporate Logic, Investor Logic and alternative Logics.

Chapter 2: Corporate Governance Theories and Research

2.1. Introduction

In her novel, *Sudden Death*, Rita Rae Brown (1983, p.68) wrote “Insanity is doing the same thing over and over again, but expecting different results.” This form of insanity has been occurring in the field of corporate governance following the issuance of Cadbury’s (1992) *Report of the Committee on the Financial Aspects of Corporate Governance*. Since the late 1980s, there have been multiple waves of high-profile accounting and corporate scandals, where directors and executives have been accused of being incompetent and greedy (Cheffins, 2011; Solomon, 2007). To solve this reoccurring corporate governance problem, academics, directors, investors, regulators and others have repeatedly recommended the following: Independence of directors, auditors and remuneration consultants from executives; disclosure of executive remuneration (including policies, practices and processes); and shareholder activism and power (e.g. voting on the remuneration report) (Aguilera and Jackson, 2010; Hill, 2005, 2006, 2008, 2010; Solomon, 2007). However, the empirical evidence indicates that these prescriptions have not dramatically improved the performance of listed companies or prevented further corporate scandals (e.g. Global Financial Crisis) as had been expected, yet these prescriptions are still recommended (Dalton and Dalton, 2005, 2011).

This chapter reviews ideas and practices that have become taken-for-granted, particularly in Anglo-American countries. Independence, disclosure, shareholder activism and pay-for-performance are consistent with the prescriptions of codes (Aguilera and Cuervo-Cazurra, 2004, 2009) and agency theory (Dalton et al., 2007). Some in the media (Cassidy, 23 September 2002; Madrick, 20 February 2003, 28 October 2004) and academia (Ferraro et al., 2005; Ghoshal, 2005; Frey and Osterloh, 2005) have questioned neo-classical economics’ (including agency theory’s) influence on society. The teaching of agency theory, Ghoshal (2005) argues, has indoctrinated managers to believe that society expects them to behave opportunistically. Further, Zajac and Westphal (1995; 2004) found that investors are reacting increasingly positively to the adoption of long-term incentive plans and stock repurchase plans by US companies, particularly when those plans are justified using agency theory language. Overall, the empirical evidence indicates that there are competing sets of ideas and

practices (or institutional logics) that have become embedded in academic and public discourse on corporate governance, but agency theory (or Investor Logic) is dominant in the UK and US (Lok, 2010; Zajac and Westphal, 2004).

This chapter is organised as follows. An overview of corporate governance is presented in Section 2. Particular attention is given to ideas and practices that researchers have commonly studied including the corporate objective, models of human behaviour, external corporate governance and internal corporate governance. This is followed by a brief review of theories of executive remuneration in Section 3. The Holy Grail of corporate governance research has been to identify the governance mechanisms that moderate the relationship between executive remuneration and shareholder value (Gomej-Mejia, 1994). It is argued that questing for this Holy Grail is irrational. Instead, this research draws on institutional theory to explain why ideas and practices become taken-for-granted. A review of institutional theory and corporate governance is detailed in Section 4. Drawing on the themes of the chapter, Section 5 presents a framework that yields alternative institutional logics of corporate governance: namely, Corporate Logic, Investor Logic, Political Logic and Stakeholder Logic. Concluding comments are made in Section 6.

2.2. Corporate Governance

Since the early twentieth century the defining features of the publicly listed company (hereafter, the company) have been limited liability, tradable shares, widely held shareholdings, and separation of ownership and control (Berle and Means, 1932). While the precise origins of these features of the company are unknown, Petram (2011) argues that the Dutch East India Company (founded in 1602) was the first company to have shares traded actively on a stock exchange in 1650. However, shareholders were not granted limited liability until the enactment of the British Companies Act of 1856 and 1862. Since then limited liability has become the cornerstone of corporate law throughout the world, and privately-held and publicly listed companies have become ubiquitous (Carey, 1998; Micklethwait and Wooldridge, 2003). As a form of organisation, the company has allowed management to gain access to vast amounts of capital and shareholders to diversify their risk, which fuelled the early and modern industrial revolutions (Jensen, 1993; Tricker, 2011).

During the mid-to-late nineteenth century, many Governments granted companies the rights and responsibilities of a living person and shareholders the right of limited liability, and in

exchange, companies were expected to maximise firm value and, through competition with other companies, maximise economic efficiency and growth (Kaen, 1988; Jensen, 1993). Boards of directors are legally accountable for fulfilling these responsibilities (Monks and Minow, 2004; Tricker, 2011). There has been much academic and public debate about whether granting these rights to companies have led to the desired economic outcomes, and boards have been heavily scrutinised as a result (Tricker, 2011). Corporate governance has emerged from this debate as a discipline that not only describes how boards of directors oversee management, but also can evaluate how boards of director make decisions and provides solutions to problems faced by boards of directors (Cheffins, 2011). Academic and public debate on corporate governance is reviewed next.

2.2.1. The Publicly Listed Company and Its Stakeholders

Figure 2.1 shows the company and its stakeholders, which may be inside or outside the company. Traditionally, corporate governance has been focused on shareholders, directors and executives (Berle and Means, 1932; Mace, 1971; Jensen and Meckling, 1976). Shareholders appoint the board of directors to act on their behalf, who ensure that executives act in the best interests of shareholders (Fama and Jensen, 1983). However, this traditional perspective is too narrow (Solomon, 2007). A broader conceptualisation of corporate governance recognises that there is a network of stakeholders. Some are primary (or core) stakeholders such as shareholders, customers, employees, and suppliers; whereas others are secondary stakeholders such as oversight bodies, special interest groups and society (Donaldson and Preston, 1995). These stakeholders have varying interests, power (i.e. ability to influence the company and other stakeholders) and salience (i.e. desire to be involved in how the company is governed) (Mitchell et al., 1997).

Figure 2.1: The Publicly Listed Company and its Stakeholders

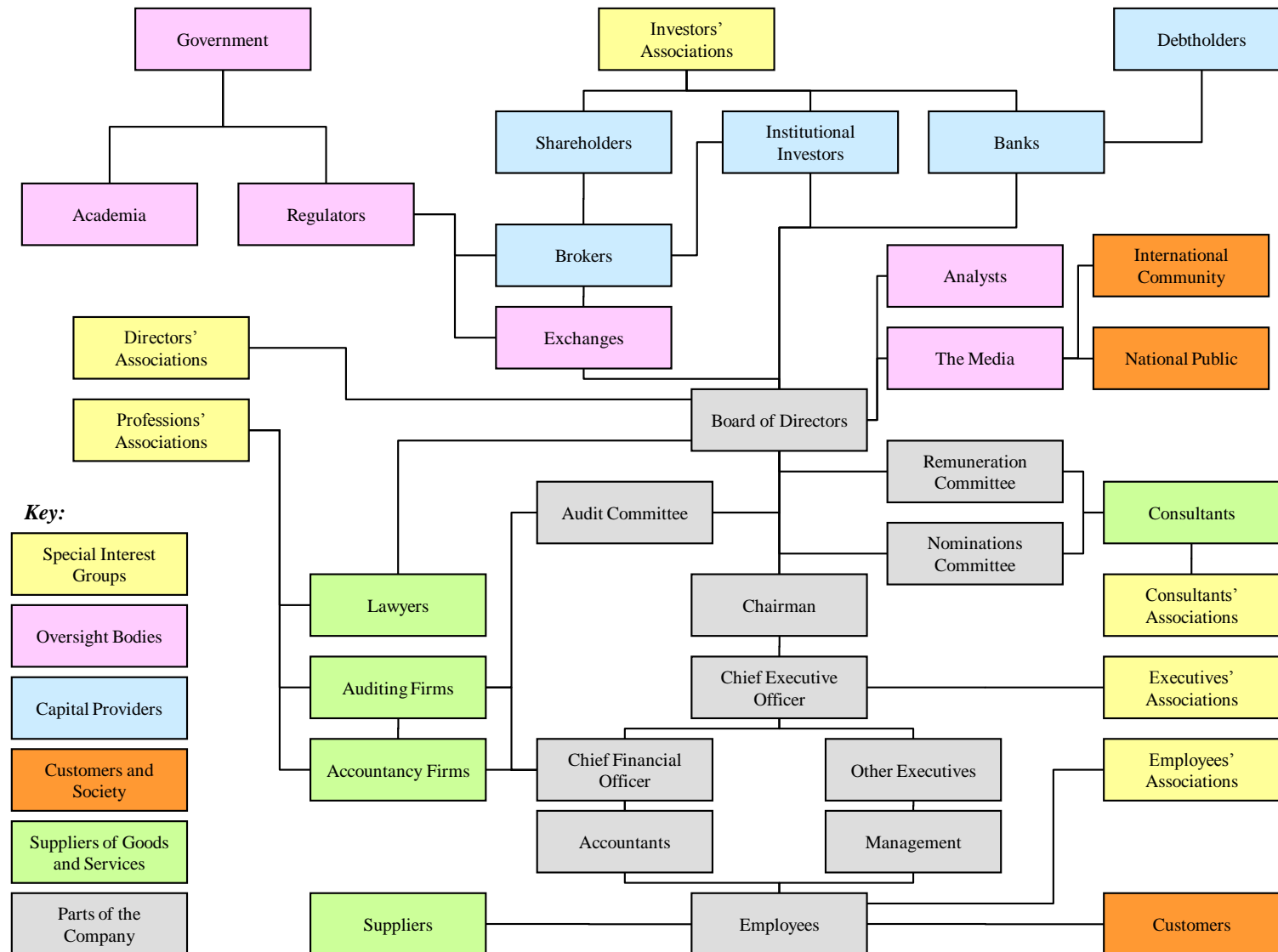


Figure 2.1 illustrates that many stakeholders are a party to corporate governance. The board of directors and its committees are legally obligated to ensure that executives and employees act in the best interests of the company. While customers and suppliers do usually not have a significant role in corporate governance, shareholders and debt-holders have a prominent role in corporate governance because they can gain control of the company. Service providers such as accountants, auditors, consultants and lawyers have been cast as the gatekeepers of ‘good’ corporate governance, although some have failed in this role (Coffee, 2006). Government, regulators and stock exchanges set the regulatory framework that the company operates in, and, along with academia and media, monitor the company’s compliance (Gillan, 2006). Oversight bodies and special interest groups also issue codes that set the normative framework that the company operates in (Aguilera and Cuervo-Cazurra, 2004). However, the company is not a passive pawn and can exert influence over its stakeholders and the regulatory and normative framework (Jones and Pollitt, 2004).

2.2.2. Corporate Objectives

Given the number of stakeholders that companies have and their varying interests, there has been much debate over which stakeholder/s should have their interests served by the company and be ‘the principal’. There are two main camps: Shareholder primacy and stakeholder primacy (for debates, see Green, 1993 vs. Bainbridge, 1993; and Sundaram and Inkpen, 2004a, b vs. Freeman et al., 2004).⁹ Shareholder primacy asserts that management (directors and executives) should use the company’s resources and non-shareholding stakeholders as the means to maximise shareholder value (Friedman, 1962; Sundaram and Inkpen, 2004a). On the other hand, stakeholder primacy asserts that management should use the company’s resources to engender cooperation among stakeholders in order to maximise stakeholder value (Donaldson and Preston, 1995; Freeman et al., 2004). Both camps claim that if companies pursue their corporate objective, then companies will produce the greatest good (in economic terms) for the greatest number.¹⁰

⁹ There are other corporate objectives, but these have received much less attention in the corporate governance literature. For example, institutional theorists suggest that the corporate objective is legitimacy, i.e. to survive in the long-term, the company should act, or at least claim to act, in accordance with stakeholders’ expectations, particularly powerful ones (Meyer and Rowan, 1977; Suchman, 1995). Further, Heracleous and Lan (2012) argue that the corporation itself should be the principal and this is the case under corporate law in the US and UK. They argue that the corporate objective should be profit maximisation, but to survive in the long-term, the company will have to satisfy, to some extent, all stakeholders’ claims.

¹⁰ This phrase invokes Jeremy Bentham’s Moral Axiom, “it is the greatest happiness of the greatest number that is the measure of right and wrong” (Burns, 2005, p.46), which was originally published in *A Fragment on Government* in 1776.

Proponents of shareholder primacy argue that shareholders are the ultimate risk bearer in the company as they are only entitled to the company's residual value (assets less liabilities) and, therefore, have the strongest incentive among all stakeholders to ensure that management maximises performance, or in this case, the company's residual value (Bainbridge, 1993; Sundaram and Inkpen, 2004a). Also, shareholders do not have the same legal protection as non-shareholding stakeholders (with respect to consumer, employment and environment laws), which adds to shareholders' incentive to monitor management (Bainbridge, 1993; du Plessis et al., 2005). Unlike stakeholder value maximisation, it is argued that shareholder value maximisation is an unambiguous and measurable (e.g. economic profit and total shareholder return) corporate objective (Sundaram and Inkpen, 2004a). Further, Jensen (2001) and Sundaram and Inkpen (2004a) suggest that the interests of non-shareholding stakeholders must be satisfied in order to maximise shareholder value in the long-term. This corporate objective is termed *enlightened* shareholder value maximisation.¹¹

On the other hand, proponents of stakeholder primacy argue that shareholders have less risk than non-shareholding stakeholders because they can diversify their risk and sever their relationship with the company by selling their shares, while the livelihoods of non-shareholding stakeholders are often dependent on one company (e.g. employees) or a few the companies (e.g. suppliers) (Freeman et al., 2004; Ghoshal, 2005). Freeman et al. (2004, p.364) argue that to maximise stakeholder value, "Managers must develop relationships, inspire their stakeholders, and create communities where everyone strives to give their best to deliver the value the firm promises." While acknowledging that the company must make profits to satisfy the interests of shareholders, Freeman et al. (2004) argue that management must balance the multiple interests of stakeholders to produce superior results, and this will result in both ethically and economically desirable outcomes for society.

¹¹ Shareholder value maximisation has been heavily criticised for encouraging management to maximise profits in the short-term, ignore non-shareholding stakeholders' interests and welfare, and act unethically (Ghoshal, 2005; Smith, 2003). A focus short-term on profits at the expense of long-term value and survival has been, it is claimed, fuelled by stock market pressure to meet quarterly earnings' targets and executive share options (Ghoshal, 2005; Jensen, 2005). Also, US corporate scandals in the first years of the twenty-first century such as Enron, Tyco and WorldCom and the 2007-2009 Global Financial Crisis have also been partially attributed to management's pursuit of shareholder value maximisation (Smith, 2003; Jensen, 2005; Parmar et al., 2010). Enlightened shareholder value maximisation has been put forward as solution to a short-term focus in both the academic (Jensen, 2001; Jensen et al., 2005) and political arenas (Wen and Zhao, 2011). However, adding the word 'enlightened' does not alter the fundaments tenets of shareholder value maximisation as it has never been argued that management should maximise short-term profit at the expense of long-term shareholder value (Bainbridge, 1993). Shareholder value maximisation, whether *enlightened* or not, implies that non-shareholding stakeholders are a means to the end of shareholder value.

It is not expected that there will be any resolution to the academic debate between proponents of shareholder primacy and stakeholder primacy. Outside of academia, the espoused and practiced corporate objective varies between companies, countries and time periods (Edmonds and Hand, 1976; Gourevitch and Shinn, 2005; Witt and Redding, 2012). Stakeholder value maximisation has been dominant in Continental Europe and Japan (Aguilera and Jackson, 2010), although prior to the Global Financial Crisis shareholder value maximisation was being increasingly adopted in some of these countries (e.g. Fiss and Zajac, 2004; Lee and Yoo, 2008). In the US, stakeholder value maximisation became dominant among large companies in the 1960s and 1970s (Boyer, 2005; Englander and Kaufman, 2004), but the primacy of shareholder value maximisation was re-established following increased competition from Japanese companies in the 1980s (Lazonick, 2010), the takeovers movement in the 1980s (Zajac and Westphal, 2004) and the wide adoption of executive share option plans in the 1990s (Boyer, 2005; Lazonick and O'Sullivan, 2000). Shareholder value maximisation is also dominant in the UK (Lok, 2010).

2.2.3. Behavioural Models of Management

Arguments for and against shareholder and stakeholder value maximisation are entrenched in different conceptions of human behaviour. Maximising shareholder value requires competition (i.e. individuals acting in their own interests) in all aspects of the economy (i.e. organisations and markets) (Jensen, 2001); whereas maximising stakeholder value requires cooperation (i.e. individuals acting in the interests of others) in some aspects of the economy (i.e. organisations, but not necessarily markets) (Freeman et al., 2004). Jensen (1994) argues that organisations exist and can survive because individuals have an incentive to resolve conflict and act collectively for the betterment of their own interests in the long-term. This conception of human behaviour is known as enlightened self-interest and is consistent with enlightened shareholder values maximisation. Thus, Jensen (1994) argues that cooperation involves individuals acting in their own interests, rather than in the interests of others. However, this claim is contested.

Generally, neo-classical economists and capitalists believe that individuals are only motivated by self-interest (Collison, 2003; Jensen and Meckling, 1976), where self-interest is formally defined as maximising utility, but commonly expressed as maximising monetary wealth (Baker et al., 1988). The behaviour of self-interested individuals is restricted because they

follow ‘the rules of the game’ by acting within the law and fulfilling their obligations in accordance with formal and social contracts (Ghoshal and Moran, 1996). However, Williamson (1979) argues that individuals are opportunistic – defined as self-interest with guile – and can choose to not follow the rules and to renege on their promises. However, cooperation (or promise keeping among opportunistic individuals) may be induced through markets, organisations and regulations. In the case of the company, where there is a separation of ownership and control, contracts, surveillance and performance-based remuneration are required to govern the behaviour of management and induce cooperation (Jensen and Meckling, 1976; Williamson, 1979).

However, Adam Smith (1776; 1790), the founding father of modern economics, recognised that individuals are not entirely self-interested and are motivated by a range of ‘passions’ including sentiment (or altruism), which is defined as acting in the interests of others. Altruistic individuals not only consider the impact of their actions on others and attempt to negate negative impacts, but also provide financial, physical and social support to those in need. Such behaviour is different to that predicted by enlightened self-interest (Rocha and Ghoshal, 2006). Further, Rocha and Ghoshal (2006) argue that individuals are motivated by duty and excellence, where duty is defined as acting in accordance with moral and ethical norms, and excellence is defined as acting to develop human potentiality. Collectively, the motives of self-interest, sentiment, duty and excellence can help explain the range of behaviours observed among stakeholders and management in companies.

Based on the assumption of managerial self-interest, neo-classical economists have argued that directors should use incentives and controls to govern executives (Donaldson, 1990). They believe that “compensation plans are designed to align the interests of risk-averse self-interested executives with those of shareholders” (Murphy, 1999, p.2519). Since the Dot-com Bubble and Global Financial Crisis, these normative statements have been increasingly questioned (Cassidy, 23 September 2002; Ghoshal, 2005; Parmar et al., 2010). Ghoshal and Moran (1996) and Ghoshal (2005) contend that assuming executives are self-interested and using incentives to control their behaviour will teach them that self-interested behaviour is desirable. Pro-organisational behaviour or intrinsic motivation will be crowded-out (or reduced) as a result (Donaldson, 1990; Frey and Jegen, 2001). Thus, Frey and Osterloh (2005) argue that paying executive like bureaucrats (i.e. mainly fixed remuneration) will

produce more socially desirable outcomes than paying them like entrepreneurs (i.e. mainly variable remuneration).

This debate has led to a behavioural model of management, where individuals are either agents or stewards, not both. Agents are self-interested (or opportunistic) and extrinsically motivated, whereas stewards are collective-serving and intrinsically motivated (Davis et al., 1997). As Donaldson (1990, p.377) explains, stewards “are team players, and the optimal structure is one that authorizes them to act, given that they will act in the best interests of owners [or stakeholders].” Thus, management efforts can be optimised for agents with performance-based remuneration and stewards with competitive fixed remuneration (Grundeir, 2008). Note that stewards may be de-motivated by performance-based remuneration because it signifies a lack of trust by the board (Davis et al., 1997; Grundeir, 2008). However, executives may change their behaviour between agent and steward (e.g. Angwin et al., 2004). Due to uncertainty in deciding whether executives are agents or stewards and the cost in making the wrong decision, boards are most likely biased towards believing that executives are agents. This may result in a self-fulfilling prophecy (Ghoshal, 2005).

Debate on human behaviour is often normative. While psychologists are concerned with how individuals actually behave, proponents of shareholder and stakeholder primacy both make assumptions about how individuals behave. The debate is characterised by a dichotomy of agent (self-interest) versus steward (cooperation). However, Furnham (2005) highlights that individuals have multiple motives and their motives may change. Individuals desire both extrinsic and intrinsic rewards in differing quantities. Some value money and status, whereas others value challenging and enjoyable work. A perception of reward equity is also important. Further, individuals’ preferences and motives are not autonomous and stable, but are subject to external influences, particularly societal norms and peer pressure, and can change over time. As human behaviour is multi-faceted and dynamic, characterising individuals as agents or stewards results in a ‘straw man’ conception of human behaviour. Nevertheless, corporate governance theory and practice does oversimplify human behaviour.

2.2.4. External Corporate Governance

There are many definitions of corporate governance. Consistent with shareholder primacy, Cadbury (1992, pp.15-16) defined corporate governance as “the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their

companies... [and] are accountable to their shareholders...” Consistent with stakeholder primacy, Solomon (2007, p.14) defined corporate governance as “the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity.” In contrast, Daily et al. (2003, p.371) defined corporate governance without reference to the corporate objective, “as the determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations.” Irrespective of the definition, there are two spheres of corporate governance: Internal (see Section 2.2.5.) and external.

External corporate governance refers to the relationship between society (e.g. external stakeholders) and the company (e.g. the board). This includes culture, markets, politics and regulation, and other sources of oversight (Gillan, 2006). Culture (e.g. national differences) influences both regulation and how internal corporate governance is structured and practiced (Gourevitch and Shinn, 2005; Tosi and Greckhamer, 2004). Emerging from the political arena, regulation sets ‘the rules of the game’ and the penalties for breaking these rules (Chambers and Weight, 2008), although companies (e.g. directors) do lobby politicians and regulators to change the rules (Bebchuk and Neeman, 2010; Volpin and Pagano, 2005). Markets for capital, information (e.g. analysts), financial services (e.g. auditors and lawyers), labour, products-services (e.g. customers and competitors) also act as a constraint on corporate behaviour, although large companies are able to resist market forces to some degree (Aguilera and Jackson, 2003; Gillan, 2006; Shleifer and Vishny, 1997). Other sources of oversight include academia and the media (Core et al., 2008; Dyck and Zingales, 2002; Gillan, 2006). Overall, external corporate governance is a two-way relationship as the company influences and is influenced by society.

Corporate governance has been a topic of public interest since the US Securities and Exchange Commission investigated the collapse of Penn Central in 1970 (Cheffins, 2011) and the UK’s Cadbury Committee reported on the *Financial Aspects of Corporate Governance* following the collapse of Polly Peak in 1990 and BCCI and Maxwell Communications in 1991 (Chambers and Weight, 2008). While business history is littered with corporate collapses, these companies gained notoriety because their boards failed in their fiduciary responsibility to monitor executives. Fuelled by accounting and corporate scandals (e.g. Arthur Anderson and Enron in 2001) and financial crises (Asian financial crisis in 1997; Dot-

com Bubble in 2001; and the Global Financial Crisis in 2008), code issuers including regulators, stock exchanges, investor associations, director associations around the world have produced a plethora of codes (Aguilera and Cuervo-Cazurra, 2004, 2009). Notably, the Cadbury Committee's code has become the blueprint for code issuers around the world (Enrione et al., 2006).

Corporate governance reform (particularly in the form of codes) is concerned with the independence of directors, auditors and remuneration consultants from management, disclosure of executive remuneration, institutional investor activism, and shareholder voice (e.g. non-binding vote on the remuneration report) (Chambers and Weight, 2008; Daily et al., 2003; Hill, 2006, 2008; Solomon, 2007). Regulators and stock exchanges produce codes to improve the efficiency of capital markets and companies as well as to calm investor and public anxiety (Zattoni and Cuomo, 2008). While most mandatory codes take a 'comply or explain' approach, companies comply with codes even though compliance does not result in improved firm performance (Aguilera and Cuervo-Cazurra, 2009). It may be that companies comply with codes because their directors and advisors (e.g. accountants) guided corporate governance reform by becoming members of and lobbying code issuers (Jones and Pollit, 2004). For instance, Sir Adrian Cadbury, who chaired the Cadbury Committee, was the former Chairman of Cadbury Schweppes, a large multinational company. There is also mixed evidence on whether enhancing shareholder voice results in greater CEO pay to firm performance sensitivity (Alissa, 2009; Conyon and Sandler, 2010; Ferri and Maber, 2009). Overall, corporate governance reforms have not improved firm performance or prevented the occurrence of corporate scandals (Dalton and Dalton, 2005), but reforms have demonstrated to an outraged public that regulators and directors will do something.

2.2.5. Internal Corporate Governance

Internal corporate governance is concerned with the board's structure and role, and with executive remuneration (Gillan, 2006; Solomon, 2007).¹² The board's structure refers to the number of directors, leadership (i.e. separate or combined roles for the Chairman and CEO), and composition (i.e. mix of executive, affiliated and independent directors).¹³ While all

¹² Internal corporate governance also refers to director ownership and remuneration, corporate bylaws and charters (or articles of association), capital structure, internal control systems, corporate strategy and risk, and hiring, evaluating and dismissing the CEO (Boyd et al., 2011; Gillan, 2006; Pugliese et al., 2009).

¹³ Board structure also refers to the composition of the board's committees, e.g. audit, nominations and remuneration (Chambers and Weight, 2008).

directors have the same legal duties, Fama and Jensen (1983) and Donaldson and Davis (1991) argue that different types of directors add value to the company in different ways. First, executive directors are valued for their in-depth knowledge of the company. Second, affiliated non-executive directors – who are former executive directors, transact with the company (e.g. consulting services) or have a large shareholding – are valued for their knowledge of the company and their resources (e.g. business network). Third, independent non-executive directors – who have no financial ties to the company – are valued for their outside perspective and ability to monitor executives.

Board leadership has only two structures: Separate persons as chairman and CEO, or one person as combined chair-CEO. Both structures have pros and cons. Donaldson and Davis (1991) argue that having an executive chairman will improve the clarity and speed of decision-making because boards will be less likely to oppose or confound executives. On the other hand, Cadbury (1992, p.21) argued against boards having an executive chairman because “...it represents a considerable concentration of power.” An executive chairman may subvert the company for their own purposes at the expense of stakeholders. Until recently, executive chairman were common in many countries, particular the US (Dalton and Dalton, 2005; Donaldson and Davis, 1991). However, having separate persons as chairman and CEO as well as a majority of independent directors is now favoured among policymakers and practiced by most companies in Anglo-American countries (Dalton and Dalton, 2005; Solomon, 2007).

There has been considerable research on the influence of board structure on firm performance. Dalton et al.’s (1999) meta-analysis revealed that there is positive relationship between the number of directors and firm performance, particularly for smaller firms. In contrast, Dalton et al.’s (1998) meta-analysis found that there is no relationship between board structure (leadership and composition) and firm performance. Recent studies have also found that there is minimal evidence for a consistent relationship between board structure (including committee structures) and firm performance (Dalton and Dalton, 2011; Finegold et al., 2007; Kang and Zardkoohi, 2005). But some empirical evidence indicates that an executive chairman can positively influence firm performance in smaller or entrepreneurial companies (Boyd, 1995; Kiel and Nicholson, 2003). Overall, the empirical evidence indicates that there is no optimal board structure, which goes against the recommendation for independent boards found in codes around the world (Dalton and Dalton, 2005, 2011).

It has been argued that it is the board's role, particularly the roles played by individual directors, that can add value, rather than board structure (Leblanc and Gilles, 2005; Sundaramurthy and Lewis, 2003). Hung (1998) describes six roles for the board: linking to others (e.g. directors' networks); coordinating with stakeholders; control (e.g. monitoring executives); strategic (e.g. advising executives); maintenance (or conformance with societal norms and rules); and support (e.g. legitimate or rubber stamp executives' decisions). While all of the roles are important, prior research has tended to study the control, strategic and, to a lesser extent, the linking roles (Roberts et al., 2005). Further, policymakers have also debated the board's role. Typically, codes recommend that executive directors perform a strategic role and independent directors perform a control role (e.g. Cadbury, 1992; Higgs, 2003).

Summarising the debate, Becht et al. (2007, p.916) postulates: "Should the board of directors be seen as having only an (inevitably adversarial) monitoring role, or should directors also play an advisory role?" Donaldson and Davis (1991) and Davis et al. (1997) put forward that the board's role will be control-oriented or advice-oriented, but not both. They argue that if executives are assumed to be agents, then the board should be comprised of independent directors who are control-oriented; whereas if executives are assumed to be stewards, then the board should be comprised of executive and affiliated directors who are advice-oriented. A combined control/advice role is not possible. Executive and affiliated directors cannot monitor executives as they are financially tied to the company, and independent directors cannot advise executives as they do not have an in-depth knowledge of the company.

However, the board may be able to both monitor and advise executives. Directors can have different but equally important roles and can switch roles from being an evaluator of the CEO's performance to a collaborator on the CEO's strategic plan (Leblanc and Gilles, 2005). Non-executive directors may be both monitors of executives and possess expertise that is valued by executives (Fama and Jensen, 1983). The relationship between the board and the CEO is complex and dynamic, where both control and collaboration are necessary to meet shareholders' or stakeholders' expectations (Tricker, 2009). For example, in a US study of social ties between directors and the CEO, and boardroom collaboration in strategic decision-making, Westphal (1999, p.19) found "CEO-board collaboration and control are independently and positively related to subsequent firm performance." The empirical

evidence suggests that effective boards operate between these two extreme positions, combining elements of both (Roberts et al., 2005; Solomon, 2007; Tricker, 2009).

Similar to the debate on the board's structure and role, debate on executive remuneration is centred on opposites: fixed versus variable pay philosophies. If executives are assumed to be agents, then variable pay (i.e. performance-based remuneration) is required to direct their behaviour (Fama, 1980). On the other hand, if executives are assumed to be stewards, then only fixed pay is required because they will maximise their effort as long as they perceive their pay to be fair (Davis et al., 1997; Grundei, 2008). The empirical evidence is mixed, but indicates that there is a weak relationship between executive remuneration and firm performance, although firm size has greater explanatory power than firm performance (Devers et al., 2007; Gerhart et al., 2009; Tosi et al., 2000). This implies that executive remuneration does influence firm performance, but not in all cases. Therefore, Davis et al.'s (1997) proposition that some executives are agents, while others are stewards is supported.¹⁴

There is a standard executive remuneration package that includes salary and benefits, pension (or superannuation), other fixed remuneration (e.g. recruitment, retention and severance payments), and short- and long-term incentives (for reviews, see Chambers and Weight, 2008; Gomez-Mejia et al., 2010; Murphy, 1999). Note that short- and long-term incentives may be dependent on a range of performance measures including financial, non-financial and market-based (e.g. total shareholder return), where the short-term is one year and the long-term is multiple years (e.g. 3-5 years). The basic elements of the standard package have not varied much over time, but certain elements and practices do fall in and out of fashion, e.g. share options (Frydman and Saks, 2010). However, there are national differences in the standard package with greater use of variable remuneration in Anglo-American countries and fixed remuneration in Europe and Asia (Filatotchev and Allcock, 2010; Sanchez Marin, 2008).

There is also a standard process for determining how and how much to remunerate executives (Chambers and Weight, 2008; Gomez-Mejia et al., 2010; Murphy, 1999). The level of fixed remuneration is based on survey data of a peer group, usually provided by remuneration consultants. The board (or remuneration committee) has to decide the basis of comparison

¹⁴ As Bebchuk and Fried (2004) believe that all executives are agents (i.e. opportunistic), they argue that the mixed empirical evidence indicates that executives are able to control the pay-setting process and receive ever-increasing remuneration irrespective of firm performance.

(e.g. composition of the peer group) and the relative level (e.g. lower-quartile, median or upper-quartile). The potential level of variable remuneration is based on a multiple of fixed remuneration. The board has to decide the targets on which variable remuneration is determined (e.g. hurdles or a range) and the range of multiples (e.g. minimum and maximum pay-out). Note that there is a difference between awarded and realised remuneration for equity-based incentives that are deferred over a specified period. The board's decisions can be significantly influenced by executives (Bebchuk and Fried, 2004) and remuneration consultants (Bender, 2011; Conyon et al., 2011; Crystal, 1991).

Executive remuneration has been the most controversial topic in corporate governance since at least the 1930s in the US (Wells, 2010).¹⁵ There has been much academic and public debate particularly in Anglo-American countries because of the dramatic increase in the absolute level of CEO pay and the ratio of CEO-to-employee pay in the 1990s and 2000s (Conyon and Murphy, 2000; Ezzamel and Watson, 1998; Froud et al., 2008; Michel et al., 2007; Shields et al., 2003). In the US, this debate has been fuelled by large awards of executive share options (Hall and Murphy, 2003), corporate scandals and executives being rewarded for failure (Anderson et al., 2008, 2009, 2010). There have been similar concerns in Australia and the UK (Chambers and Weight, 2008; Productivity Commission, 2009; Trade and Industry Committee, 2003). Further, empirical evidence indicates that many boards believe that their executives are above average performers deserving of above average pay, which results in ever-increasing executive remuneration (Bizjak et al., 2008; 2011; Hayes and Schaefer, 2009).

2.2.6. Summary

Following corporate scandals and financial crises, boards have been accused of being 'asleep at the wheel' and CEOs have been accused of being 'greedy' (Monks and Minow, 2004). For example, Chambers (2005, p.836) comments that during 1990s in the UK, "Directors were caricatured as 'fat cats' smoking cigars and licking the cream..." Reforming both external and internal corporate governance has been proposed as the solution to these problems; this is evidenced by the issuance of more than a hundred codes around the world since the UK's Cadbury Report in 1992 (Aguilera and Cuervo-Cazurra, 2004, 2009; Enrione et al., 2006).

¹⁵ For example, Cooper (1933, p.358) commented: "It appears that in some instances the potential social and economic value of such plans [employee stock option plans] is not realized... because... entrenched [sic] managements of great corporations pervert the plan into a fraudulent device to obtain huge bonuses of cheap stock for the managerial officers at the expense of the shareholders."

The solution consists of board independence, remuneration disclosure, pay-for-performance (e.g. executive share option schemes), shareholder voting on the remuneration report, and shareholder activism (Monks and Minow, 2004; Solomon, 2007). Companies and institutional investors have adopted this solution (Aguilera and Cuervo-Cazurra, 2009), although it is debatable whether it has led to improved firm performance (Dalton and Dalton, 2005, 2011).

2.3. Theories of Executive Remuneration

Numerous theories have been put forward to describe how corporate governance is practiced, explain how and why corporate governance practices have arisen as well as prescribe how corporate governance practices can be reformed (for reviews, see Hung, 1998; Tricker, 2009, Chapter 9). However, all corporate governance theories are not reviewed here because the subject of the present study is executive remuneration. This is still a broad, interdisciplinary subject with theories of executive remuneration originating from economics (e.g. marginal productivity theory), finance (e.g. agency theory), law (e.g. managerial power theory), management (e.g. stakeholder and stewardship theories), psychology (e.g. expectancy and equity theories) and sociology (e.g. institutional theory) (for reviews, see Gomez-Mejia et al., 2010; Otten, 2007). The purpose of this section is to briefly review theories of executive remuneration and then explain why institutional theory is chosen as the theoretical lens for this research.

Table 2.1 summarises the key implications for executive remuneration of a number of theories. Included in Table 2.1 are only those theories that have been widely discussed and researched in the literature on executive remuneration. Not included are theories that have rarely been applied to executive remuneration such as resource dependence theory (Pfeffer and Salancik, 1978)¹⁶ and under-researched theories such as political figurehead theory (Ungson and Steers, 1984). While there are many theories of executive remuneration, agency theory has become the dominant theoretical lens of researchers (Durisin and Puzone, 2009; Gomez-Mejia et al., 2010). Empirical evidence provides limited and qualified support for most theories including agency theory. Many have questioned the dominance of agency theory (Frey and Osterloh, 2005; Ghoshal, 2005; Lubatkin, 2005), while others have

¹⁶ Hillman et al.'s (2009) review of resource dependence theory does not mention executive remuneration.

reformulated agency theory to incorporate insights from other theories (e.g. Lubatkin et al., 2007; Wiseman et al., 2012).

Table 2.1: Theories of Executive Remuneration

Theories	Seminal Articles	Key Implications for Executive Remuneration
<i>Economics, Finance and Law</i>		
Agency Theory	Jensen and Meckling (1976)	Conflicts of interest arise because shareholders delegate responsibility to the board, which in turn delegates responsibility to the CEO. Agency theory asserts that external and internal corporate governance mechanisms (e.g. incentive schemes) can align the interests of directors and executives with those of shareholders (Eisenhardt, 1989).
- Positive Agency Theory	- Fama and Jensen (1983a,b)	
- Optimal Contracting Theory	- Harris and Raviv (1979)	
- Managerial Power Theory	- Bebchuk et al. (2002)	
Labour Market Theory	Hicks (1932)	Labour market theory contends that executive remuneration is determined by the forces of supply and demand (Hicks, 1932). However, executives will be remunerated at different rates depending on firm size (Roberts, 1956), education and experience of executives (Becker, 1964) and the supply of high-calibre ('superstar') talent (Rosen, 1981).
- Marginal Productivity Theory	- Roberts (1956)	
- Extreme Value Theory	- Rosen (1981; 1992)	
- Human Capital Theory	- Becker (1964)	
<i>Management</i>		
Contingency Theory	Chandler (1962)	Contingency theory states that firm performance is dependent on the fit between the company's executive remuneration practices (e.g. performance measures and mix of fixed and variable pay) and its strategy and environment (Gomez-Mejia and Wiseman, 1997).
- Strategic Management Theory	- Salter (1973); Balkin and Gomez-Mejia (1987)	
Stakeholder Theory	Freeman (1984) and Jones (1995)	Stakeholder theory asserts that executive remuneration is dependent on fulfilment of salient and powerful stakeholders' interests (Arora and Alam, 2005).
Stewardship Theory	Donaldson (1990) and Donaldson and Davis (1991)	Stewardship theory claims that performance-based remuneration is unnecessary because executives are pro-organisational and collective-serving (Davis et al., 1997).
Upper Echelons Theory	Hambrick and Mason (1984)	Upper echelons theory asserts that firm performance is partially dependent on the fit between executives (e.g. personalities) and the company's remuneration practices, and this dependence intensifies as managerial discretion increases (Hambrick, 2007).
- Managerial Discretion Hypothesis	- Hambrick and Finkelstein (1987)	
<i>Psychology</i>		
Expectancy Theory	Vroom (1964); Lawler and Porter (1968)	Executives' effort (or motivation) depends on their perceptions of the likelihood of receiving desirable rewards (Furnham, 2005). But as the level of potential extrinsic rewards increases, there is a decrease in intrinsic motivation; thus, performance-based remuneration can decrease executives' motivation (Frey and Osterloh, 2005).
- Cognitive Evaluation Theory	- Deci and Ryan (1985)	
- Motivation Crowding Theory	- Frey (1997)	
Structural Theory	Simon (1957)	Structural theory contends that there is a social norm that supervisors (e.g. CEO) will be paid more than their subordinates, and it can be expressed as a ratio (Simon, 1957). Tournament theory asserts that this ratio exists because executives are competing to become the CEO, and the CEO's higher pay represents a prize (O'Reilly et al., 1988).
- Tournament Theory	- Lazear and Rosen (1981)	
Social Comparison Theory	Festinger (1954); O'Reilly et al. (1988)	Social comparison theory asserts that how much the CEO is paid depends on how much board members (and their peers) are paid, while equity theory claims that it depends on how much the CEO's peers are paid (Gomez-Mejia and Wiseman, 1997).
- Equity Theory	- Adams (1963)	
<i>Sociology</i>		
Institutional Theory	Meyer and Rowan (1977); DiMaggio and Powell (1983); Suchman (1995)	Institutional theory states that the board's remuneration decisions will be influenced by societal expectations, but the board can manage societal expectations by decoupling its public account of decisions from internal practices (Scott, 2008).

Agency theory asserts that an agency problem (or a conflict of interests) occurs when shareholders delegate decision-making responsibility to management because shareholders and management have different preferences and are utility maximisers (Jensen and Meckling, 1976). Management's interests can be aligned to those of shareholders through a variety of governance mechanisms including markets for corporate control, products-services and labour, as well as regulation, monitoring (by shareholders and the board) and contracting (e.g. performance-based remuneration) (Dalton et al., 2007). There are two branches of agency theory: First, optimal contracting theory refers to how boards should design contracts with executives to maximise shareholder value; Second, positive agency theory refers to identifying how governance mechanisms solve agency problems (Eisenhardt, 1989). Overall, agency theory predicts that if the agency problem is resolved, then executive remuneration will be tied to shareholder value (Haugen and Senbit, 1981; Murphy, 1999).

The empirical evidence provides limited and qualified support for agency theory's assumptions and predictions (for general reviews, see Dalton et al., 2007; Davis et al., 1997; Eisenhardt, 1989; for reviews on executive remuneration, see Devers et al., 2007; Gerhart et al., 2009; Gomez-Mejia and Wiseman, 1997; Murphy, 1999; Rost and Osterloh, 2009; Tosi et al., 2000). Tosi et al.'s (2000, p.301) meta-analysis reveals that, "firm size accounts for more than 40% of the variance in total CEO pay, while firm performance accounts for less than 5% of the variance." Similarly, Rost and Osterloh's (2009) meta-analysis found that CEO pay to firm performance sensitivity has declined over time. However, this evidence does not necessarily falsify agency theory. It has been argued that CEO pay to firm performance sensitivity is constrained by political forces (Jensen and Murphy, 1990a; Murphy, 1999) and managerial power (Bebchuk et al., 2002).

There are many friendly and hostile critics of agency theory. Friendly critics contend that the fundamental tenets of agency theory are sound, but agency theory needs to be expanded to improve its explanation power (Tosi, 2008; Wiseman and Gomez-Mejia, 2012). For example, Bebchuk et al. (2002) argue that CEO pay is not sensitive to firm performance because CEOs are able to effectively set their own pay (for reviews of managerial power theory and optimal contracting theory, see Edmans and Gabaix, 2009; and Weisbach, 2007). Some hostile critics dispute agency theory's assumptions and propositions (Ghoshal, 2005; also see stewardship theory: Donaldson, 1990; Davis and Donaldson, 1991). Other hostile critics suggest that agency theory is not universally applicable to all institutional settings (Bruce et al., 2005;

Lubatkin et al., 2007). Nevertheless, many academics believe that “...well designed pay packages can “mitigate”... [but not] eliminate... agency problems...” (Jensen et al., 2005, p.ii). Thus, Dalton et al. (2007, p.40) conclude that, “we describe agency as the worst theory of corporate governance, except all those other forms that have been tried from time to time.”

Theories of the managerial labour market explain how boards reach remuneration agreements with executives when they enter and exit the company and following annual reviews (Gomez-Mejia et al., 2010). A number of researchers have used these theories to explain why worldwide CEO pay increased dramatically in 1990s and 2000s (for statistics on CEO pay, see Fernandes et al., 2009; Michel et al., 2007). Frydman (2007) and Murphy and Zabojnik (2004) argue that increasing demand for executives with general skills, not firm-specific knowledge explains increasing CEO pay because firm-specific knowledge is non-transferable and, therefore, undervalued relative to general skills. Drawing on marginal productivity theory, Gabaix and Landier (2008) contend that increasing market capitalisation of companies explains increasing CEO pay. Also, Fulmer (2009) finds that CEO pay is strongly influenced by competitors’ CEO pay. These findings are consistent with labour market theory (see Table 2.1) and indicate that the managerial labour market may be efficient.

However, the managerial labour market may be inefficient for several reasons. First, management has the power to set its pay (Bebchuk and Fried, 2004). Consistent with managerial power theory, Bebchuk and Grinstein (2005, p.283) found that, “the growth of US executive pay during the period 1993-2003... [is] much beyond the increase that could be explained by changes in firm size, performance, and industry classification.” Second, recruitment and remuneration consultants are not unbiased market intermediaries, but are conflicted because they may be hired by management and/or sell other services to the company (Crystal, 1991). Although the empirical evidence offers mixed support for this argument (Cadman et al., 2010; Conyon et al., 2009, 2011; Voulgaris et al., 2010). Third, remuneration committees are cognitively biased because they all believe that their CEO is an above-average performer, resulting in CEO pay being ratcheted upwards (Greenbury, 1995; Murphy, 1999).¹⁷ Again, there is mixed support for this argument (Ezzamel and Watson, 1998; Hayes and Schaefer, 2009; Productivity Commission, 2009).

¹⁷ This is known as the Lake Wobegon Effect (Hayes and Schaefer, 2009, p.280): “In public radio host Garrison Keillor’s mythical home town of Lake Wobegon, Minnesota, all the children are above average.” Or, all of the parents believe that their children are above average, but someone must be below average.

The tenor of management theories are captured in Finkelstein and Hambrick (1988, p.554) remark that, “a CEO’s pay is not likely to strongly motivate behavior. Nevertheless, compensation bears on firm performance...” Stakeholder, stewardship and upper echelons theories argue that remuneration schemes should unlock the potentiality of executives (Davis et al., 1997; Hambrick, 2007; Parmar et al., 2010). The empirical evidence offers mixed support for stewardship and stakeholder theories (Bruce et al., 2005; Davis et al., 1997; Parmar et al., 2010). Similarly, the managerial discretion hypothesis has mixed support (Finkelstein and Boyd, 1998). Note that upper echelons theory’s implications for executive remuneration have been rarely studied (Hambrick, 2007). On the other hand, contingency theory has an instrumental view of executives, where remuneration schemes are thought to moderate their behaviour (Balkin and Gomez-Mejia, 1987). The empirical evidence provides strong support for contingency theory in the sense that other theories of executive remuneration only have explanatory power in a limited range of circumstances; that is, other theories are contingent (e.g. Combs and Skill, 2003; Muth and Donaldson, 1998).

An expanded model of expectancy theory encapsulates a range of psychological theories including equity, social comparison, and goal-setting theories (Furnham, 2005; Liccione, 2007). The empirical evidence offers support for expectancy theory, and combined with agency theory, explains how performance-based remuneration influences executives’ motivation and behaviour, and how this influences firm performance (Devers et al., 2007). However, the empirical evidence also indicates that performance-based remuneration diminishes intrinsic motivation (Frey and Jegen, 2001; Frey and Osterloh, 2005). Further, the empirical evidence offers mixed support for equity, social comparison and tournament theories (Eriksson, 1999; Fredrickson et al., 2010; Main et al., 1993; O’Reilly, et al., 1988; Wade et al., 2006). However, there is strong support for the propositions that changes in CEO pay are mirrored in subordinates’ pay, and underpaying employees relative to the CEO and their peers will result in higher employee turnover (Wade et al., 2006). This implies that the ratio of supervisor to subordinate pay is a significant determinant of employee turnover (Simon, 1957).

Institutional theory contends that in designing or, at least, when reporting executive remuneration practices, boards have to account for societal expectations or risk being sanctioned (Suchman, 1995; Bruce et al., 2005). For example, Aguliera and Cuervo-Cazurra

(2009) argue that companies comply with codes issued by regulators, stock exchanges and director associations in order to demonstrate that their governance practices are legitimate. Further, companies deal with uncertainty in decision-making by adopting practices that are prescribed by legitimate actors (e.g. management gurus) or their competitors have adopted (Sturdy, 2004). For example, Staw and Epstein (2000) found that US companies that adopted popular management techniques improved their reputation but not firm performance relative to non-adopters, and an enhanced reputation also resulted in higher CEO pay. While societal expectations enable and constrain the actions of companies, companies can manage institutional pressures to conform by decoupling external reporting from internal practices (Suchman, 1995). For example, Westphal and Zajac (1998, 2001) found that investors reacted increasingly positively to the adoption of long-term incentive plans and stock repurchase plans by US companies, despite an increasing proportion of plans not being implemented.

In formal terms, institutional theory is concerned with institutions and institutional logics (for reviews, see Scott, 2008; and Thornton and Ocasio, 2008). Institutions are processes, practices and structures that are self-sustaining and supported by regulative, normative and cultural-cognitive elements. Institutional logics are sets of beliefs, ideas, norms, rules and values that give meaning to institutions. Institutions and institutional logics are often localised to particular institutional settings (e.g. companies listed on the same stock exchange), but may span the world. The empirical evidence supports the notion that institutions and institutional logics materially influence how corporate governance is conceptualised and practiced (for a review, see Fiss, 2008). An example of an institution is the set of executive remuneration practices within any given country because these practices are often standardised (Murphy, 1999; Sanchez Marin, 2008) and supported by laws, codes, directors' networks (e.g. social comparison) and remuneration consultants (Conyon et al., 2011). Further, an example of an institutional logic is agency theory-based justifications of executive remuneration practices, which are widely diffused and have been found to positively influence investors' reactions to the adoption of long-term incentive plans and stock repurchase plans by US companies (Westphal and Zajac, 1998; Zajac and Westphal, 1995, 2004).

O'Reilly and Main (2010, p.1) argue that there is "need for a more comprehensive model of executive compensation that incorporates both economic and psychological determinants."

Indeed, multiple theories have been used to study executive remuneration. For example, Bender (2004) and Main et al. (2008) interpreted their findings using agency and institutional theories. In the pursuit of a comprehensive model, theorists have combined multiple theories. Bruce et al. (2005) argue that institutional theory explains when agency, stakeholder or stewardship theories are applicable in any given institutional setting. Similarly, Lubatkin et al. (2007) develop a cross-nationally accommodating theory of agency, where institutions (e.g. national culture) influence how executives behave (e.g. propensity for opportunistic behaviour) and how companies design their governance mechanisms (e.g. necessity of performance-based remuneration). Alternatively, Wiseman et al. (2012, p.207) contend that “agency problems... are universal, even though the explicit manifestation of these problems and ways to deal with these problems may vary depending on institutional context.” Thus, they develop a social theory of agency that describes and predicts how agency problems are handled in different institutional settings.

2.3.1. A Critique of Theories of Executive Remuneration

Drawing on theories of executive remuneration, researchers have investigated the antecedents and consequences of executive remuneration, and much progress has been made. However, Devers et al. (2007, p.1016) aptly comment that, “The failure to document a consistent and robust relationship between executive pay and firm performance has frustrated scholars and practitioners for over three quarters of a century.” In essence, researchers have been questing for the Holy Grail: Corporate governance mechanisms (e.g. executive remuneration practices) that will maximise firm performance (Gomej-Mejia, 1994). As aforementioned, this had led a number of researchers to develop a unified theory of corporate governance. While the quest for the Holy Grail may be noble, it is irrational because there are too many dynamic and ethereal variables to take into account. For example, there are 26 variables in Wiseman et al.’s (2012, p.207) framework including complex variables such as “Political Intervention”, “Ownership Concentration”, “Variable Compensation” and “Performance Outcomes” and nebulous variables such as “Belief in Meritocracy”, “Social Capital”, “Opportunistic Agent Behaviour” and “Impression Formation”.

Finkelstein and Hambrick (1988, p.544) suggest that, “The complexity of CEO compensation cannot be easily understood by adopting simple models... It is only when economic, social, political, and individual forces are considered jointly that effective analysis can occur.” This line of reasoning assumes that it is possible for researchers to find a universal way of

organising that maximises firm performance, or at least, contingent ways of organising that maximise firm performance in particular institutional settings (e.g. Lubatkin et al., 2007; Wiseman et al., 2012). However, positivistic, deterministic thinking oversimplifies the social reality of corporate governance. Firm performance is not grounded in physical reality, but social reality: It is a socio-political construct and as such, its meaning is continually renegotiated by powerful stakeholders (e.g. see debate on shareholder value vs. stakeholder value in Section 2.2.2). For example, Tosi et al. (2000) found that researchers have used 30 different measures of firm performance to study the relationship between CEO pay and firm performance. This criticism equally applies to most variables studied in prior research.

Theories of corporate governance, particularly those rooted in neo-classical economics have been accused of being self-activating (Arce, 2007; Ferraro et al., 2005; Ghoshal, 2005; Ghoshal and Moran, 1996). For example, as traders widely adopted the Black-Scholes-Merton option pricing formula, the method for pricing options changed and actual prices converged on theoretical prices derived from the formula (Watson, 2007). Similarly, Ghoshal (2005) argues that agency theory is self-activating because if people are taught to believe that executives are opportunistic, then directors will adopt performance-based remuneration to control the assumed opportunistic behaviour of executives and this coupled with the diffusion of agency theory signals to executives that opportunistic behaviour is expected and normal. Further, theories of corporate governance are self-activating because of their dual nature, i.e. positive and normative. For example, positive agency theory predicts how the agency problem can be resolved, while normative agency theory asserts how the agency problem should be resolved.

In contrast to theories rooted in neo-classical economics, the present study draws on discursive institutionalism to investigate institutional logics of corporate governance and their implications for executive remuneration. Schmidt (2010, p.3) explains that, “Discursive institutionalism... take[s] account of the substantive content of ideas and the interactive processes by which ideas are conveyed and exchanged through discourse.” Discursive institutionalism does not deny that institutional logics have consequences (e.g. adoption or non-adoption of ideas and practices can influence firm performance), but it does recognise the socially constructed nature of such influences (Phillips et al., 2004; Zajac and Westphal, 2004). That is, how ideas and practices influence firm performance will vary across institutional settings and over time. For example, Zajac and Westphal (2004) found that US

investors' reactions to the adoption of stock repurchase plans changed from negative in the 1970s to positive in the 1980s. Thus, what is irrational and illegitimate today may become rational and legitimate tomorrow.

Most studies on executive remuneration have examined the variables that moderate the relationship between executive remuneration and firm performance (Devers et al., 2007; Gerhart et al., 2009). However, it is recognised that corporate governance is socially constructed. That is, ideas materially influence how people think and act (Phillips et al., 2004; Scott, 2008). Discursive institutionalism can shed new light on corporate governance. For example, Lazonick and O'Sullivan (2000) argue that US companies adopted shareholder value maximisation as the corporate objective in the 1980s and 1990s because they believed it was rational and legitimate. Shareholder value maximisation became popular and legitimate due to advocacy from politicians, regulators, investors and consultants. They also evidence that the adoption of this idea materially influenced how governance and management was practiced. Shareholder value maximisation was used to rationalise and legitimise the downsizing of workforces and the increasing of CEO pay (also, see Boyer, 2005; Englander and Kaufman, 2004). These arguments are further elaborated in the following section, which reviews institutional theory and corporate governance.

2.4. Institutional Theory and the Concept of Institutional Logics

Institutional theory has traditionally explained why organisations within an organisational field become homogenous over time (Scott, 2008).¹⁸ Weber (1968) posited that the desire for profits ('the spirit of capitalism') and market forces drive companies to find and adopt the most efficient and rational way of organising (e.g. bureaucratic structures). This process is known as competitive isomorphism (DiMaggio and Powell, 1983). On the other hand, DiMaggio and Powell (1983) argued that coercive, normative and mimetic pressures compel companies to adopt similar structures and processes that do not necessarily increase efficiency. Coercive pressure refers to companies complying with rules and laws, and being sanctioned for non-compliance. Normative pressure refers to companies enacting norms, standards and values because their members are also members of trade and professional

¹⁸ There are different levels of analysis in institutional theory. Scott (2008, p.89) identifies the following levels from micro to macro: Organisational subsystem, organisation, organisational population (e.g. an industry), organisational field, societal (e.g. a country) and world-system. Note that an organisational field refers to a group of organisations that are united by their frequent interactions. For example, all companies listed on a stock exchange and their stakeholders (see Figure 2.1) constitute an organisational field.

associations (e.g. directors' associations have codes of ethics that members are expected to follow). Mimetic pressure refers to the tendency of companies to mimic the actions (e.g. structures) of their competitors, particularly when faced with uncertainty. These processes are known as institutional isomorphism. Metaphorically, competitive and institutional isomorphism acts as an iron cage that constrains organisational behaviour.

While institutional theorists initially examined how and why organisations become similar over time, they have more recently studied how and why organisations become diverse over time. Thus, institutional theory also explains why organisations change, particularly why organisations within an organisational field may become homogenous or heterogeneous over time (Scott, 2008). First, changes in the constituents of an organisational field (e.g. entry of new competitors) and mergers between organisational fields (e.g. trade agreements) result in changes in competitive and institutional pressures (Wooten and Hoffman, 2008). Second, social, technological and regulatory jolts can bring about change in an organisational field (Greenwood et al., 2002). For example, accounting and corporate scandals have led to official inquiries and the issuance of new corporate governance codes (Enrione et al., 2006). Third, institutional entrepreneurship (e.g. innovation by an organisation) can result in new ways of organising being widely adopted, particularly if the entrepreneur has credibility (Battilana et al., 2009). Fourth, organisations may be afforded some flexibility in how they organise because of weak or conflicting competitive and institutional pressures (Scott, 2008). For example, there is no clear 'winner' in the political debate on what corporate objective will maximise economic efficiency and growth in society (Kaen, 1988; also, see Section 2.2.2).

Institutional theory is about organisations and institutions (i.e. the taken-for-granted ways of organising), the institutional lifecycle (i.e. the rise and fall of institutions), institutional change and stability (i.e. prevention of change), and organisational resistance to institutions (i.e. symbolic and illegitimate action) (Scott, 2008). Given this broad scope, institutional theory is best described as a discipline or meta-theory. Unsurprisingly, there are many different branches of institutional theory. Schmidt (2010) identifies four branches.¹⁹ First, rational

¹⁹ Scott (2008, p.78) identified eight branches of institutional theory including: economic history, historical institutionalism in political science, neo-institutionalism in economics, traditional institutional sociology, neo-institutional sociology, population ecology, evolutionary theory in economics and ethno-methodology. As a result, Philips and Malhotra (2008) argue that institutional theory has become too loosely defined and related research has become too broad. They argue that there is a risk that institutional theory means nothing at all. This is an echo of Zucker's (1977) concern that unless institutional theory is more tightly defined, it will not be a theory because it will not be falsifiable.

choice institutionalism refers to how institutions (“Incentive structures”, p.2) constrain organisations (“rational actors who pursue their preferences”, p.2), and is exemplified by agency theory. Second, historical institutionalism asserts that organisational behaviour is path-dependent (i.e. bound by history) because of institutions (“Macro-historical structures and regularities”, p.2). Third, sociological institutionalism explains how institutions (“Cultural norms and frames”, p.2) shape and are shaped by organisations. Fourth, discursive institutionalism refers to how organisations through communication (i.e. producing and consuming texts) are shaped by and shape institutions (“Meaning structures and constructs”, p.2). While rational choice and historical institutionalisms evoke an image of institutions as constraints (or iron cages), sociological and discursive institutionalisms conceptualise institutions as changeable constraints.

Rational choice institutionalism is limited because it assumes that individuals are opportunistic utility-maximisers (see Section 2.3.1) and society should strive to maximise economic efficiency and growth.²⁰ On the other hand, sociological institutionalism (or neo-institutional sociology) asserts that organisational survival depends on both technical efficiency²¹ and legitimacy (Meyer and Rowan, 1977; Scott, 2008). Organisations gain and maintain legitimacy through demonstrating conformity to societal expectations, represented by regulative, normative and cultural-cognitive elements (Scott, 2008; Suchman, 1995). For example, Peng (2004) found that Chinese companies who appointed outside directors to their boards did not experience an improvement in return on equity. Instead, they argue that it had become socially expected for Chinese companies to have a high proportion of outside directors. However, organisations can resist institutional pressures by adopting structures that are ceremonial and decoupling their external reporting of conformity from their internal practices (Meyer and Rowan, 1977; Boxenbaum and Jonsson, 2008). For example, Kury (2007) argues that US companies use earnings management techniques to ensure that reported earnings meet securities analysts’ expectations, but in doing so, they are decoupling their reported earnings from what they perceive to be their actual earnings.

²⁰ Historical institutionalism is not reviewed because it has been rarely mentioned in the corporate governance literature.

²¹ There is no absolute or objective measure of technical efficiency because it is defined by prevailing beliefs, norms, rules and values (e.g. financial reporting laws and accounting standards) and these can change over time and vary between institutional settings..

Drawing on neo-institutional sociology, Fiss (2008) highlights several significant themes in corporate governance research. First, there continues to be an ideological battle between proponents of shareholder and stakeholder primacy, but shareholder primacy is dominant. Second, corporate governance mechanisms associated with shareholder value maximisation have been widely diffused but are also resisted. He argues that diffusion is a function of the preferences and relative power of companies and their stakeholders, particularly shareholders and directors. Third, diffusion cannot be characterised as companies mimicking each other. Instead, companies adapt governance practices to local conditions, although adaptation is influenced by cultural, political and technical concerns. Fourth, there has been resistance to diffusion of governance practices in the form of decoupling and attempts by companies to change societal expectations (e.g. lobbying to change financial reporting requirements). Fifth, research has focused on shareholders and managers, rather than other stakeholders. It has been found that shareholders have varying interests. This implies that shareholder value maximisation is not a single corporate objective as its proponents had argued. Sixth, there are varieties of capitalism throughout the world and these varieties are associated with different approaches to corporate governance, but there are also transnational institutional pressures that may facilitate a global convergence in corporate governance.

Neo-institutional sociology asserts that institutional pressures facilitate the institutionalisation of institutions (DiMaggio and Powell, 1983). Put differently, institutions are the product of organisations reproducing equivalent actions (e.g. structures and processes). However, Phillips et al. (2004) argue that institutional theorists have lacked a credible explanation of the process of institutionalisation, describing the process as a 'black box' (also see Phillips, 2003; Phillips et al., 2006; and Phillips and Malhotra, 2008). Opening the black box, they contend that institutions are socially constructed through the production and consumption of texts. For example, texts enable directors to be known as executive, affiliated or independent. They describe the process of institutionalisation as follows: First, actions can produce texts, both temporary (e.g. talk) and permanent (e.g. artefacts); Second, collections of texts that are highly-ordered produce discourses, which are collections of ideas with shared and durable meanings; Third, coherent discourses, supported by legitimate parties, will inform all parties what actions should be taken, leading to standardised actions; Fourth, institutions are created and sustained through the embedding of discourses in actions, i.e. ideas and actions become taken-for-granted.

In essence, Phillips et al. (2004) are advocating discursive institutionalism. They argue that organisations and institutions are known and brought into being by discourses comprising of collections of texts that are supported by legitimate parties. Texts are interconnected sets of ideas. Change is understood through the production and consumption of texts and, ultimately, ideas. For example, the idea of director independence has been disseminated by corporate governance codes, resulting in shareholders changing director appointments (Dalton and Dalton, 2005; Solomon, 2007). Further, Phillips and Malhotra (2008) believe that this discursive shift in institutional theory is necessary to both enable institutions to be precisely defined and the process of institutionalisation to be rigorous studied. They contend that institutions are comprised of cognitive elements only, i.e. ideas that are taken for granted. Cognitive institutions are self-reproducing and do not require sanctions because people cannot conceive of legitimate alternative ideas and courses of action. On the other hand, so-called regulative and normative institutions, which lack taken-for-granted ideas, have to be continually reinforced to remain in existence and, therefore, are not institutions. They conclude that discursive institutionalism can also shed light on the closely related concept of institutional logics (also see Green and Li, 2011).

Institutional logics “are cultural beliefs and rules that shape the cognitions and behaviors of actors... [and] are socially shared, deeply held assumptions and values that form a framework for reasoning, provide criteria for legitimacy, and help organize time and space” (Dunn and Jones, 2010, p.114). Put differently, institutional logics provide individuals with cognitive frameworks that they use to make sense of their social reality and guide their actions (Friedland and Alford, 1991; Thornton and Ocasio, 1999).²² There are institutional logics at different institutional levels from organisational subsystem to world-system. Prior research has explained institutional change and isomorphism in terms of transitions between institutional logics (e.g. Thornton and Ocasio, 1999; Zajac and Westphal, 2004). Recent research explains institutional diversity in terms of competing institutional logics, where no logic becomes dominant (e.g. Dunn and Jones, 2010; Reay and Hinings, 2009; van Gestel and

²² The concept of institutional logic is comparable to the concept of Grand or Mega Discourse. Alvesson and Kärreman (2000, p.1133-1134) defined Grand Discourse as “an assembly of discourses, ordered and presented as an integrated frame” and Mega-Discourse as “an idea of a more or less universal connection of discourse material... [and] addresses more or less standardized ways of referring to/constituting a certain type of phenomenon”. Both institutional logic and Grand or Mega Discourse rest on the premise that ideas can have durable meaning and through the use of language (i.e. production and consumption of texts) can shape organisational behaviour and bring organisational structures and processes into being (Phillips and Malhotra, 2008; Thornton and Ocasio, 2008).

Hillebrand, 2011). There are often competing institutional logics (e.g. sets of ideas on how to organise) in any given institutional setting and institutional change occurs as powerful stakeholders within that setting gain or lose support (Thornton and Ocasio, 2008).

There are often competing institutional logics within organisational fields (Friedland and Alford, 1991). As socially-constructed sets of ideas, institutional logics contain unintended and deliberate ambiguities and contradictions (van Gestel and Hillebrand, 2011). Organisational actors can exploit this uncertainty to advance their own interests and/or legitimise new ideas and practices (Seo and Creed, 2002; Suddaby and Greenwood, 2005). Institutional change occurs because institutional logics are built on contradictions and represent truces between powerful organisational actors (Suddaby and Greenwood, 2005). Truces also allow competing institutional logics to co-exist in organisational fields. Organisational actors, who are proponents of competing logics, may temporarily set aside their differences and work together towards mutual goals (Reay and Hinings, 2009). Such temporary truces may result in societal actors (e.g. the State) building institutional structures to make temporary truces permanent and, ultimately, allow competing institutional logics to co-exist (Reay and Hinings, 2009). However, support for one or another institutional logic is cyclical as truces between organisational actors are rarely permanent (Dunn and Jones, 2010).

Institutional logics of corporate governance are assumptions and beliefs about how corporate governance should be practiced, which are “linked to higher-order societal logics of economic activity” (Zajac and Westphal, 2004, p.435). Centred on organisational fields, there is a small but growing body of research on institutional logics of corporate governance (e.g. du Plessis, 2008; Green et al., 2008; Lok, 2010; Shipilov et al., 2010; Zajac and Westphal, 2004). This research is closely tied to research on comparative corporate governance (Aguilera and Jackson, 2003, 2010) and varieties of capitalism (Hall and Soskice, 2001). Collectively, prior research has identified a number of institutional logics and these have been matched to specific countries. Typically, researchers have argued that investor capitalism (or Investor Logic) is dominant in Anglo-American countries, while network capitalism (or Stakeholder Logic) is dominant in Asian and European countries (Aguilera and Jackson, 2003, 2010). However, researchers have also pointed out that the dominant institutional logic can change over time (Zajac and Westphal, 2004) and while an institutional logic may be dominant in an organisational field, other institutional logics can still be active (Green et al., 2008; Lok, 2010).

There is much similarity and diversity in how corporate governance is both conceptualised and practiced (see Section 2.2). An institutional logics perspective asserts that this occurs because there are complementary and competing institutional logics within and across multiple institutional levels. For example, capitalism is the dominant way of organising at the world-system level, but there are varieties of capitalism at the societal level (Alfred and Friedland, 1985; Thornton et al., 2005). Similarly, executive remuneration practices and processes appear to have become standardised (Murphy, 1999; also see Section 2.2.3), but there are differences between countries (Sanchez Marin, 2008). For example, Japanese executives receive mainly fixed remuneration, the remuneration of UK executives is balanced between salary, short-term incentives and long-term incentives, and US executives receive mainly variable (equity-based) remuneration (Filatotchev and Allcock, 2010). These differences are attributed to the varieties of capitalism. However, there may be institutional logics at the societal, organisational field and organisational levels that are shaping these executive remuneration practices. Thus, institutional logics of corporate governance are discussed in the following section.

2.5. Institutional Logics of Corporate Governance

Institutional logics are “the organizing principles for a field... [and] the basis of taken-for-granted rules guiding behaviour of field-level actors” (Reay and Hinings, 2009, p.629). The dual nature of institutional logics provide individuals with cognitive frames that enable them to construct their social realities (i.e. positivist views of ‘what is’) and attempt to shape their social realities (i.e. normative views of ‘what should be’). Further, Friedland and Alford (1991, p.253) note that “society is composed of multiple institutional logics which are available to individuals and organizations as bases for action.” This implies that there are multiple institutional logics of corporate governance, providing sets of ideas or beliefs systems that enable and constrain both how corporate governance is practiced and how stakeholders interpret these practices (Zajac and Westphal, 2004). Organisational fields are political landscapes, where the ability of individuals and organisations to mobilise institutional logics of corporate governance will influence how corporate governance is recommended to be (e.g. codes) and is practiced (Lok, 2010). The remainder of this section reviews prior research on institutional logics of corporate governance.

Table 2.2 describes three institutional logics of corporate governance that have been identified by prior research, namely: Corporate Logic, Investor Logic and Stakeholder Logic.²³ These institutional logics are consistent with several theories. Corporate Logic is consistent with stewardship theory's normative model of corporate governance, where executives, supported by directors, make decisions that will maximise shareholder value (Davis et al., 1997; Zajac and Westphal, 2004). Investor Logic is consistent with agency theory's normative model, where directors use incentives and controls to direct executives to make decisions that will maximise shareholder value (Jensen and Meckling, 1976; Zajac and Westphal, 2004). Stakeholder Logic is consistent with stakeholder theory's normative model, where executives, supported by directors, make decisions that will maximise stakeholder value in the long-term (Donaldson and Preston, 1995; du Plessis, 2008). These logics have different assumptions about what should be the corporate objective and how management behaves. However, there is a missing logic as none of these Logics support stakeholder value maximisation while assuming directors and executives act as self-interested agents.

²³ These institutional logics are known by many different names. Corporate Logic is also known as Managerial Capitalism (Green et al., 2008) or Management Control Logic (Shipilov et al., 2010). Investor Logic is known as Agency Logic (Zajac and Westphal, 2004), Investor Capitalism (Green et al., 2008), Board Reform Logic (Shipilov et al., 2010), and Logic of Shareholder Value Maximisation (Lok, 2010). Stakeholder Logic is known is also known as Value Logic (du Plessis, 2008).

Table 2.2: Institutional Logics of Corporate Governance

Criteria ¹	Corporate Logic ¹	Investor Logic ¹	Stakeholder Logic ²
<p>Assumptions about:</p> <ul style="list-style-type: none"> - Top managers - The firm 	<ul style="list-style-type: none"> - Professionals with unique strategic knowledge that is required for efficient allocation of corporate resources; Stewards of their organizations. - An institution with unique core competencies 	<ul style="list-style-type: none"> - Relatively fungible agents of shareholders; Pursue strategies that advance personal interests at expense of shareholders - A nexus of contracts; legal fiction 	<ul style="list-style-type: none"> - Plurality of talents and motives; Management sets the normative tone of the corporation from the top; Management possesses uniquely integrated proprietary information relevant to the strategy and operation of the firm - Replaced state and church as the grand social institution of our time; Controls vast resources, crosses national borders, and affects every human life
Concept of resource allocation	Managerial capitalism: top management have primary responsibility for allocating resources to different businesses in the corporation	Investor capitalism: shareholders can diversify better and more easily than firms	Stakeholder Capitalism: <ul style="list-style-type: none"> - Asset-specificity to both financial and social capital - Credible commitments reduce mobility and switching
Links to high-order cultural frames	Norms of professional autonomy	Logic of capitalist markets	Non-severability of ethics and economics (separation thesis); equitable distribution amidst uncertainty
Links to theories of organization	Managerialist theory (Chandler, 1962)	Agency theory (Jensen and Meckling, 1976)	Stakeholder theory
<p>Implications for governance practices:</p> <ul style="list-style-type: none"> - Compensation - Allocation of cash flow 	<ul style="list-style-type: none"> - Use salary and other rewards to attract and retain scarce management talent - Retain and reinvest 	<ul style="list-style-type: none"> - Use incentives to align management and shareholder interests. - Redistribute to shareholders 	<ul style="list-style-type: none"> - Equity, i.e. meritocratic assessment of contribution determines reward - Reflects the value ordering supported by legitimate stakeholders
<p>Notes:</p> <p>1 These columns are verbatim from Zajac and Westphal (2004, p.436)</p> <p>2 This column is verbatim from du Plessis (2008, p.794)</p>			

Table 2.3 presents a general framework of internal corporate governance. Institutional logics can be derived from this framework. There are two dimensions to this framework and each dimension has two possibilities. First, the company's corporate objective can be shareholder or stakeholder value maximisation (Smith, 2003; also see Section 2.2.2). Second, the board as representatives of the shareholders or stakeholders can assume that the CEO and other executives will behave as agents or stewards (Davis et al., 1997; also see Section 2.2.3). These possibilities give rise to opposing approaches to the board's structure and role as well as executive remuneration (see Section 2.2.5). The board can be comprised of a majority of directors who are independent of the company or are knowledgeable about the company (e.g. current or former executives) (Donaldson and Davis, 1991). The directors can be representative of shareholders or stakeholders (White, 2006). The board's role can be control-oriented or advice-oriented (Davis et al., 1997; Hung, 1998). Executive remuneration can be mainly variable (e.g. control-oriented) or mainly fixed (e.g. trust-oriented) (Grundei, 2008). Performance measures, which may or may not be linked to remuneration, can be shareholder-oriented (e.g. economic profit and total shareholder return) or stakeholder-oriented (e.g. a balanced scorecard) (Kaplan, 2009). These possibilities give rise to four quadrants: 1. Investor Logic; 2. Political Logic; 3. Corporate Logic; and 4. Stakeholder Logic.

Table 2.3: A General Framework of Corporate Governance

		Corporate Objective	
		Shareholder Value Maximisation	Stakeholder Value Maximisation
Behavioural Model of Management	Agent (Self-interested)	<p><i>Quadrant 1: Investor Logic</i></p> <p>Board of Directors:</p> <ul style="list-style-type: none"> - Board structure: Independent directors that are nominated and elected by shareholders - Board's role: Control and incentivise executives <p>Executive Remuneration:</p> <ul style="list-style-type: none"> - How much: Marginal productivity of executives - How: Mainly variable; Mix of cash, options and shares dependent on shareholder value (e.g. total shareholder return and economic profit) 	<p><i>Quadrant 2: Political Logic</i></p> <p>Board of Directors:</p> <ul style="list-style-type: none"> - Board structure: Independent directors that are nominated and elected by stakeholders - Board's role: Control and incentivise executives <p>Executive Remuneration:</p> <ul style="list-style-type: none"> - How much: Marginal productivity of executives - How: Mainly variable; Cash dependent on stakeholder value (e.g. customer, employee and shareholder measures)
	Steward (Trustworthy)	<p><i>Quadrant 3: Corporate Logic</i></p> <p>Board of Directors:</p> <ul style="list-style-type: none"> - Board structure: Executive directors (for knowledge) and non-executive directors (for business network) - Board's role: Mentor and advise executives <p>Executive Remuneration:</p> <ul style="list-style-type: none"> - How much: Comparable to outside executives, proportional to inside executives, and fair to shareholders - How: Mainly fixed; Mix of cash (dependent on internal/financial measures) and shares (dependent on length of service) 	<p><i>Quadrant 4: Stakeholder Logic</i></p> <p>Board of Directors:</p> <ul style="list-style-type: none"> - Board structure: Executive and non-executive directors (possibly including stakeholder representatives) - Board's role: Communicate with stakeholders and advise executives <p>Executive Remuneration:</p> <ul style="list-style-type: none"> - How much: Comparable to outside executives, proportional to inside executives, and fair to stakeholders - How: Mainly fixed; Cash dependent on stakeholder value

In developing the general framework, a number of simplifying assumptions have been made. First, alternative corporate objectives are not incorporated into this framework because shareholder and stakeholder value maximisation are dominant in the literature (Freeman et al., 2004; Sundaram and Inkpen, 2004a). It may be that any of the non-shareholding stakeholders becomes the dominant stakeholder. For example, employees are the dominant stakeholder in Swedish companies (Gourevitch and Shinn, 2005). Similarly, coalitions may develop between multiple but not all stakeholders. For example, employees and investors are jointly-dominant stakeholders in Chile and Malaysia (Gourevitch and Shinn, 2005). Further, it may be companies do not have clear-cut corporate objectives. Coalitions may change over time. The popularity of alternative corporate objectives may rise and fall. Companies may espouse one corporate objective, while practicing another corporate objective. Thus, shareholder and

stakeholder value maximisation are theoretical corporate objectives. However, the extent to which these or other corporate objectives are indicative of the beliefs of directors, executives and stakeholders has yet to be well-researched.

Second, alternative behavioural models are not incorporated into this framework because the agent-steward dichotomy is dominant in the literature (Davis et al., 1997; Grundei, 2008). It may be that executives are distributed along a behavioural continuum from pure agent to pure steward (Stevenson, 2004). For example, there are degrees of agent-like behaviour as executives may focus on the short-term (i.e. opportunism), medium-term (i.e. self-interest) or long-term (enlightened self-interest) (Rocha and Ghoshal, 2006). Further, the agent-steward dichotomy is static, not dynamic. It may be that the behaviour of executives can change over time from agent to steward, or vice-versa. For example, Angwin et al. (2004) describe how a CEO's behaviour changed from agent-like to steward-like during a hostile takeover. Thus, agent and steward are theoretical behavioural types. However, the extent to which these or other behavioural types are indicative of the beliefs of directors, executives and stakeholders has yet to be well-researched.

Third, external corporate governance has been ignored. It may be that markets, regulation or other external governance mechanisms are sufficient to ensure that executives act in the best interests of shareholders and/or non-shareholding stakeholders (Gillan, 2006).

Fourth, internal corporate governance mechanisms included in the framework reflect the control-advice dichotomy that is dominant in the literature (Sundaramurthy and Lewis, 2003). It may be that non-executive directors can be both a judge of and an advisor to executives (Roberts et al., 2005; Westphal, 1999; also see Section 2.2.5). Moreover, alternative internal corporate governance mechanisms are ignored such as non-financial and intrinsic rewards (or socio-emotional rewards, Wiseman et al., 2012). Incentive structures related to socio-emotional rewards, although less formal, can be powerful mediators of executive behaviour (Frey, 2002; Wiseman et al., 2012). Thus, control- and advice-oriented conceptions of internal corporate governance are theoretical. However, the extent to which directors, executives and other stakeholder believe that these or other governance mechanisms are effective has yet to be well-researched. The remainder of the section describes the four logics and discusses relevant prior research.

2.5.1. Political Logic

Political Logic is partially derived from Hill and Jones' (1992) stakeholder-agency theory. They assume that multiple stakeholders have legitimate claims on the company's resources, which are managed by self-interested agents. To resolve this extended agency problem, they argue that stakeholders can control executives through laws (and the threat of punishment for non-compliance), threat of exit (e.g. customers transacting with competitors) and voice (e.g. stakeholders using the media to make claims of unfair treatment by the company). Others contend that executives will only consider stakeholders' interests as separate ends (not a means to an end) if the board is comprised of stakeholder representatives (Hillman et al., 2001; White, 2006). Thus, Political Logic asserts that a coalition of stakeholders will appoint the board to govern the company in their interests. The board will contract with executives at arm's length and use performance-based remuneration to direct executives. Executive remuneration will be dependent on a range of measures that capture the interests of stakeholders (cf. Wiseman et al., 2012). For example, a balanced scorecard can capture the interests of shareholders, customers, employees, suppliers and other stakeholders (Jensen, 2001; Kaplan, 2009).

Prior research has not studied the extent to which Political Logic is embedded in the beliefs systems of shareholders, customers, employees, and other stakeholders. However, prior research has studied board composition from a stakeholder perspective. Typically, boards are comprised of shareholder representatives, current or former executives, and, to a lesser extent, employee representatives (Solomon, 2007). For example, Germany's co-determination laws require employee representatives to be appointed to supervisory boards (Aguilera and Jackson, 2010). Further, Hillman et al. (2001) found that S&P500 companies' boards include shareholders (53%), current or former executives (27%), community representatives including academics and politicians (15%), suppliers (3%) and customers (2%). They also found that stakeholder representation is not associated with improved stakeholder relations/performance, which implies stakeholder representatives are appointed for symbolic (not substantive) reasons. Thus, stakeholder boards appear to be rare among listed companies because, perhaps, a coalition of stakeholders is difficult to form.²⁴ It may be that stakeholder boards do not represent the interests of all stakeholders, but only powerful, salient stakeholders (Mitchell et al., 1997).

²⁴ This is reminiscent of the principal-principal problem, where a majority shareholder controls a company in their interests and to the detriment of minority shareholders' interests (Young et al., 2008).

2.5.2. Stakeholder Logic

Stakeholder Logic is derived from stakeholder theory (Donaldson and Preston, 1995; Freeman, 1984).²⁵ Stakeholder Logic assumes that the board will govern the company in the interests of all legitimate stakeholders and directors will act as stewards (Preston, 1998). This means that the board does not need to be comprised of stakeholder representatives (cf. Political Logic). Instead, the board will determine how to balance or prioritise the competing claims of stakeholders based on ethical and moral norms (Donaldson and Preston, 1995). To foster cooperation amongst stakeholders, the board will act as a mediator between stakeholders who have competing claims (Lan and Heracleous, 2010). As executives are also assumed to be stewards, the board will be an advisor to (not controller of) executives, communicating stakeholders' interests and advising on decision making (Davis et al., 1997). Further, executives will receive mainly fixed remuneration because they are motivated by intrinsic rewards (Davis et al., 1997). Variable remuneration represents a sharing of profits between executives and stakeholders, rather than a control mechanism (Grundeir, 2008). Thus, variable remuneration will be dependent on stakeholder-oriented performance measures.

Prior research on international corporate governance and varieties of capitalism has found that Stakeholder Logic, supported by regulative and normative elements, is practiced by companies in Asia, Continental Europe and Scandinavia (Aguilera and Jackson, 2010; Morris et al., 2008). Witt and Redding's (2012) multi-country study of executives' perceptions of the purpose of the firm confirms this generalisation. Further, executive remuneration in total and the variable proportion are much lower in these countries compared to the US (Balkin, 2008; Fernandes et al., 2009; Filatotchev and Allcock, 2010), where Investor Logic is practiced by companies (Morris et al., 2008; Zajac and Westphal, 2004). However, there are competing institutional logics in most countries. For example, there has been a shift towards Investor Logic in France (Lee and Yoo, 2008) and Germany (Fiss and Zajac, 2004, 2006). Chizema and Buck (2006) and Chizema (2010) found that German companies have been adopting American-style executive remuneration practices, although there is evidence that these

²⁵ There are multiple branches of stakeholder theory: Normative or Ethical (Freeman, 1984); Stakeholder-Agency (Hill and Jones, 1992); Instrumental or Enlightened (Jones, 1995; Jensen, 2001); Positivist (Mitchell et al., 1997); and Convergent (Jones and Wicks, 1999). Stakeholder Logic is derived from normative or ethical stakeholder theory, where directors and executives are assumed to account for the interests of legitimate stakeholders in making decisions. However, it is problematic to define, both theoretical and practically, which stakeholders are or are not legitimate (cf. Mitchell et al., 1997).

practices are contested and not universally adopted. Irrespective of Stakeholder Logic's dominance (or lack thereof) in any given country, it is embedded in academic, business and political discourse (Parmar et al., 2010; Witt and Redding, 2012).

2.5.3. Corporate Logic

Corporate Logic is derived from managerialist theory (Chandler, 1962) and stewardship theory (Donaldson, 1990; Davis et al., 1997). Chandler (1962) and Donaldson (1990) contend that the visible hand of management (directors and executives) with their specialised knowledge and skills can allocate resources more effectively than the invisible hand of the capital market. Emphasis is placed on the norm of professional autonomy: Management are trustworthy professionals (Zajac and Westphal, 2004). Corporate Logic asserts that the board will govern the company in the interests of shareholders. As directors and executives exhibit steward-like behaviour, the board will have an advisory role and executives will receive mainly fixed remuneration (Davis et al., 1997; Grundei, 2008). The critical difference between Stakeholder Logic and Corporate Logic is that directors and executives are psychological owners; they have an affinity with shareholders, rather than non-shareholding stakeholders (Pierce et al., 2001, 2003). To reinforce this, executives should be rewarded with options or shares that are conditional on length of service, rather than firm performance.

Since the early 1990s in the UK and since the early 2000s in most countries, companies have either voluntarily or been required to increase the proportion of independent directors, increase the proportion of performance-based remuneration, increase disclosure of executive remuneration (see Sections 2.2.4 and 2.2.5). There has also been increased shareholder activism (Solomon, 2007). These trends are consistent with a shift from managerial capitalism to investor capitalism (Boyer, 2005; Englander and Kaufman, 2004; Zajac and Westphal, 2004).²⁶ In particular, Zajac and Westphal (2004) argue that there was a transition from Corporate Logic to Investor Logic in the US during the 1980s. This is exemplified by Frydman and Saks (2010) findings that CEO pay in large US companies was relative flat from the late 1940s to late 1970s, rose steadily in the 1980s and then rose dramatically in the 1990s and 2000s. Nowadays, Investor Logic is dominant in Anglo-American countries (Aguilera

²⁶ However, managerial capitalism has been equated with both Stakeholder Logic (Englander and Kaufman, 2004; Galbraith, 1967) and Corporate Logic (Chandler, 1984; Zajac and Westphal, 2004). There is no empirical evidence on what were the beliefs of directors and executives during the so-called period of managerial capitalism in the US or other countries. Further research is required. For example, a study of companies' mission statements over time may or may not reveal a narrowing of focus from stakeholder value to shareholder value.

and Jackson, 2010). This is consistent with Witt and Redding's (2012) recent findings that US executives are shareholder-oriented.

2.5.4. Investor Logic

Investor Logic is derived from agency theory (Jensen and Meckling, 1976; Ross, 1973).²⁷ Jensen and Meckling (1976, p.308) argue that, "If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of the principal." Investor Logic has a pessimistic view of both directors' and executives' motives. Therefore, the board will only govern the company in the interests of shareholders if there is an efficient stock market, an active market for corporate control and institutional investors actively monitor the company (Jensen and Meckling, 1976; Zajac and Westphal, 2004; Lok, 2010). Further, the board should be comprised of a majority of independent directors in order to prevent executives from colluding with directors (Bebchuk and Fried, 2004). The board will be control-, not advice-oriented (Davis et al., 1997). Finally, executives should receive mainly variable remuneration dependent on economic profit and total shareholder return (Grundeir, 2008; Holstrom and Kaplan, 2001).

Investor Logic is dominant in Anglo-American countries as exemplified by corporate governance codes and the use of performance-based remuneration (Aguilera and Jackson, 2010; Dalton and Dalton, 2005; Solomon, 2007). Englander and Kaufman (2004) and Zajac and Westphal (2004) argue that the mindset of US investors, politicians and others shifted from Corporate Logic in the 1970s to Investor Logic in the 1980s. This was reflected in changing attitudes towards conglomerates: From their being 'the engine of' to their being 'the problem with' the American economy (Davis et al., 1994). The takeovers movement in the 1980s and institutional investor activism in the 1990s led to US companies becoming specialised rather than diversified (Holstrom and Kaplan, 2001; Zajac and Westphal, 2004). US executives were awarded ever-increasing grants of share options in the 1990s and restricted shares in the 2000s in order to ensure that shareholder value was maximised (Murphy, 2011). However, it may be that US executives have used Investor Logic as a rhetoric to justify increasing levels of executive remuneration irrespective of changes in

²⁷ The origins of Investor Logic and agency theory go back to Adam Smith (1776, p.941), who argued that, "The directors of such [joint stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own."

shareholder value (Bebchuk and Fried, 2004; Boyer, 2005; Englander and Kaufman, 2004; Lazonick and O'Sullivan, 2000).

2.5.5. Competing Institutional Logics in Organisational Fields

This section discusses the institutional battle between institutional logics of corporate governance in a range of countries.

2.5.5.1. United States of America

The US has experienced a shift from Corporate Logic to Investor Logic in the 1980s. This is evidenced by the deinstitutionalisation of the conglomerate (Davis et al., 1994) and the wide diffusion of independent directors (Westphal and Zajac, 1997), long-term incentive plans (Westphal and Zajac, 1998; Zajac and Westphal, 1995) and stock repurchase plans (Westphal and Zajac, 2001). Upon firm adoption of stock repurchase plans, investors reactions have changed from negative in the 1970s to positive in the 1980s (Zajac and Westphal, 2004). Further, investors react more favourably to US companies that use an agency theory language to justify the adoption of long-term incentive plans and stock repurchase plans (Westphal and Zajac, 2001; Zajac and Westphal, 1995). However, Corporate Logic is still embedded in the discourse and practices of US companies. Consistent with Corporate Logic, US companies have also used human resources management language to justify the adoption of long-term incentive plans (Zajac and Westphal, 1995, 2004). Similarly, in a series of 71 interviews with directors, lawyers and company secretaries from 1978 to 1998, Green et al. (2008) found that their justifications of takeovers and takeover defences were consistent with both Corporate Logic and Investor Logic.

There is also evidence that the shift from Corporate Logic to Investor Logic has been at least partially symbolic. Westphal and Zajac (1998, 2001) and Zajac and Westphal (2004) found that as US companies adopted long-term incentive plans and stock repurchase plans, an increasingly proportion was not implemented (i.e. no options were awarded to executives and no stock was repurchased). They also found that irrespective of implementation, investors reacted favourably to adoption, particularly if justified using agency theory language (e.g. adoption will align the interests of executives with those of shareholders). Further, Westphal and Graebner (2010, p.15) found that "...relatively negative stock analyst appraisals prompt corporate leaders to increase externally visible dimensions of board independence without actually increasing board control of management." They also found that executives were able

to persuade stock analysts as they subsequently gave positive appraisals of these companies. Overall, these findings indicate that both Corporate Logic and Investor Logic are embedded in the discourse and practices of US companies and executives can mobilise this discourse, both substantively and symbolically, to influence investor behaviour.

2.5.5.2. Canada

Similar to the UK's Cadbury Report (1992), Canada's Dey Report (1994) was produced because of poor corporate performance among large Canadian companies (Monks and Minow, 2004). Consistent with Investor Logic, the Dey Report recommended that boards be comprised of a majority of independent directors. Companies listed on the Toronto Stock Exchange have to comply with or explain why they did not comply with the Dey Report's recommendations. Following 12 interviews with directors, executives, institutional investors and policy makers as well as a review of 2,000 articles in the Canadian business press, Shipilov et al. (2010) found support for both Corporate Logic (or Management Controlled Board Logic) and Investor Logic (or Board Reform Logic). They also studied the diffusion of the Dey Report recommendations, particularly board independence, and found that the recommendations diffused in two waves. While the Dey Report triggered the first wave, the second wave occurred in 2002 following the issuance of the US's Sarbanes-Oxley Act. This Act influenced Canadian companies because of the close economic ties between Canada and the US. Overall, Shipilov et al. (2010) found that Investor Logic has become dominant in Canada.

2.5.5.3. United Kingdom

Following corporate scandals (e.g. Maxwell Communications in 1991) and the issuance of the Cadbury Report (1992), corporate governance has been a subject of intense public debate in the UK (Chambers and Weight, 2008). This has led to the issuance of official reports and multiple editions of corporate governance codes (Chambers and Weight, 2008; Solomon, 2007). Lok (2010) argues that this is indicative of a shift from Corporate Logic to Investor Logic. This shift in how corporate governance is conceptualised is exemplified by Pye's (2000; 2001; 2002) longitudinal study of UK directors' opinions on how to manage a large company. There were few common themes among 46 directors interviewed from 1987 to 1989, although decentralisation, diversification and divisionalisation were often mentioned. In contrast, when 25 of the 46 directors were re-interviewed in the 1998 to 2000 period, very strong themes emerged including strategic focus, shareholder value and corporate governance.

This change in themes is attributed to the influence of the official reports and codes as well as institutional investor activism.

The corporate objective that is mandated in the UK's Companies Act has also changed over time. Historically, common law and the Companies Act 1948 and 1985 have required directors to act in the best interests of the company (Keay, 2010). This is normally interpreted as meaning directors should act in the best interests of shareholders as long as the ability to repay debtholders is not jeopardised (Chambers and Weight, 2008; Keay, 2010). The revised Companies Act 1985 added employees' interests to the corporate objective, although shareholders and employees interests were not treated as equal under common law.²⁸ Following much public and political debate in the early 2000s, a philosophy of enlightened shareholder value was included in the revised Companies Act 2006 (Keay, 2010; Wen and Zhao, 2011).²⁹ Notably, UK politicians used the phrase 'enlightened shareholder value' when discussing what should be the corporate objective in the Companies Act 2006 (Department of Trade and Industry, 2007). These changes represent a shift from Corporate Logic to Investor Logic because managerial discretion has been (at least in principle) reduced and shareholder value has been explicitly stated as the sole end, while non-shareholding stakeholders' interests are merely means to this end.

In light of these changes, Lok (2010) investigated how Investor Logic shaped the institutional identities of executives and fund managers (or institutional investors). Note that Lok (2010, p.1320) identified two versions of Investor Logic: Institutional investors are conceptualised as "owners/traders of capital" under Shareholder Value Maximisation (SVM) Logic while being "Activist long-term owners of the firm" under Enlightened Shareholder Value (ESV) Logic. The former asserts that it is legitimate for fund managers to sell their shares at any point (e.g. when a company's share price is very high or very low), while the latter asserts that fund managers are long-term investors and quasi-governors (e.g. monitor and, if necessary,

²⁸ The Companies Act 1985 (s.309(1)) states that, "The matters to which the directors of a company are to have regard in the performance of their functions include the interests of the company's employees in general, as well as the interests of its members." Note that members are defined as shareholders.

²⁹ The UK's Companies Act 2006 (s.172(1)) states that, "A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to— (a) the likely consequences of any decision in the long term, (b) the interests of the company's employees, (c) the need to foster the company's business relationships with suppliers, customers and others, (d) the impact of the company's operations on the community and the environment, (e) the desirability of the company maintaining a reputation for high standards of business conduct, and (f) the need to act fairly as between members of the company." Note that members are defined as shareholders.

discipline management). Following interviews with 20 executives and 18 fund managers, Lok (2010) found that support for ESV Logic was symbolic. Both executives and fund managers subtly managed the discourse of ESV Logic, so that their traditional identities were preserved. Consistent with Corporate Logic, executives portrayed themselves as stewards, rather than enlightened agents. Consistent with SVM Logic, fund managers portrayed themselves as owners/traders (e.g. focused on the short-term performance of their funds, rather than the long-term).³⁰

2.5.5.4. Germany

Traditionally, the German model of corporate governance has been conceptualised by Stakeholder Logic (Jackson and Moerke, 2005).³¹ During the mid-to-late 1990s, Investor Logic has been diffused among large German companies as they have adopted shareholder value maximisation as the espoused corporate objective, value-based management systems (e.g. Stern Stewart's Economic Value AddedTM), executive share option plans, and international accounting standards (Fiss and Zajac, 2004; Tuschke and Sanders, 2003). During the early-to-late 2000s, German companies have continued adopting executive share option plans as well as making extensive remuneration disclosures (Chizema, 2008, 2010). Since the mid-1990s, several factors have contributed to the diffusion of Investor Logic including Daimler-Benz and Deutsche Bank adopting executive share option plans despite significant public outrage; decreasing ownership of German companies by German banks; increasing ownership of German companies by American companies and institutional investors; and changes in German regulations and listing rules (Chizema, 2008, 2010; Fiss and Zajac, 2004; Sanders and Tuschke, 2007).

Stakeholder Logic and Investor Logic are competing for dominance in Germany. The diffusion of Investor Logic has been contested, particularly the adoption of executive share option plans (Chizema, 2010; Sanders and Tuschke, 2007) and the adoption of new disclosures requirements for executive remuneration (Chizema, 2008). Further, Investor Logic has been symbolically adopted by some German companies. For example, Fiss and Zajac (2004) found that some companies adopting shareholder value maximisation as the

³⁰ This is consistent with Hendry et al.'s (2006) findings following interviews with executives from investment firms and large listed companies in the UK.

³¹ Note that German companies have two boards: a supervisory board and a management board. This means that there is a clear separation of governance/reporting and management/strategy, unlike in Anglo-American companies. Further, Germany's Co-Determination Act 1976 requires companies to have employee representatives on their supervisory boards (Solomon, 2007).

espoused corporate objective did not implement related practices (as listed above). Similarly, Stakeholder Logic has been symbolically adopted by some German companies. For example, Fiss and Zajac (2006) found that some companies that implementing practices associated with Investor Logic had an espoused corporate objective of stakeholder value maximisation. However, it may be that German executives believe in Corporate Logic, rather than in Stakeholder Logic or Investor Logic. For example, Witt and Redding (2012) found German executives to be production-oriented. That is, they believe, society is best served when companies satisfy market demand for products or services.

2.5.5.5. Other Countries

There is growing body of research on the varieties of capitalism and comparative (or international) corporate governance (for a review, see Aguilera and Jackson, 2010). In particular, this research has investigated the extent to which the Anglo-American model (or Investor Logic) has colonised other countries. Hansmann and Kraakman (2001, p.439) argued that the main driver of convergence in both corporate laws and corporate governance practices around the world has been believe in “shareholder-centred ideology [or Investor Logic]... among business, government and legal elites”. However, Lee and Yoo (2008) suggest that the Global Financial Crisis may halt convergence because the Anglo-American model may be seen to have failed. After reviewing recent research, Yoshikawa and Rasheed (2009, p.402) conclude that there is much diversity in corporate governance and “convergence seems to be more a matter of form than substance”. But they also point out that capital, labour and product markets are drivers of convergence in corporate governance practices.

Most prior research on convergence/divergence has studied corporate governance practices rather than discourse or institutional logics (again, see Aguilera and Jackson, 2010). For example, Chizema and Shinozawa (2012) studied the diffusion of practices, not discourse. Aside from the studies reviewed in this section, there have been few studies of institutional logics of corporate governance that have analysed discourse. At this point, few comments about the diffusion of institutional logics in other countries can be made. Unless discourse is studied, the diffusion of institutional logics in other countries will not be known. The study of discourse is important because it can reveal whether practices have been substantively or symbolically adopted (Fiss and Zajac, 2004, 2006; Zajac and Westphal, 2004). As has been shown in this section, transitions between institutional logics in organisational fields do not occur simply. There are always competing institutional logics with support that waxes and

wanes (Suddaby, 2010). Only the study of discourse and practices can reveal these ambiguities and complexities within organisational fields.

2.5.6. Gaps in Research

Prior research has shown that Corporate Logic, Investor Logic and Stakeholder Logic are widely diffused discourses which influence how corporate governance is practiced. In Canada, the UK and the US, Investor Logic is dominant, particularly in the discourse of the media and regulators, but Corporate Logic is still active in the discourse of directors and executives (Green et al., 2008; Hansmann and Kraakman, 2001; Lok, 2010; Pye, 2000, 2001, 2002; Shipilov et al., 2010; Zajac and Westphal, 2004). In Germany, Stakeholder Logic and Investor Logic are competing for dominance, although Investor Logic has been rapidly gaining support (Chizema, 2008, 2010; Fiss and Zajac, 2004, 2006; Sanders and Tuschke, 2007). Collectively, these studies have shown evidence of a battle between institutional logics in written texts including corporate annual reports, media articles, corporate governance codes, listing rules and corporate laws. Further, these studies have shown that this battle is multifaceted as directors, executives, investors, media and regulators have different beliefs and interests, and some companies are decoupling their discourse and practices.

Prior research on the diffusion of institutional logics has been narrowly focused. While corporate annual reports often exceed 100 pages, studies have only analysed statements on the corporate objective (Fiss and Zajac, 2004, 2006) and justifications of long-term incentive plans and stock repurchase plans (Zajac and Westphal, 1995, 2004). These studies have only studied two corporate objectives, shareholder and stakeholder value maximisation, and two justifications, agency theory language and human resource management language. Further, a multitude of practices are described in corporate annual reports, but studies have been limited to value-based management systems, executive share option plans/long-term incentive plans and international accounting standards (Fiss and Zajac, 2004, 2006; Sanders and Tuschke, 2007) as well as stock repurchase plans (Zajac and Westphal, 2004). However, institutional logics of corporate governance have a broad range of implications for how corporate governance and executive remuneration are practiced (see Tables 2.2 and 2.3). Therefore, future research should examine these broader implications.

Possible avenues for future research are as follows. Lok (2010) argues that regulatory and normative pressures in the form of corporate laws, official reports and codes have a powerful influence on the diffusion of institutional logics. Future research could examine the extent to which institutional logics have been diffused in a range of texts. Particularly attention could be given to the timing of diffusion among the texts. For example, institutional logics may diffuse from codes to corporate annual reports. Further, multiple aspects of institutional logics could be studied. For example, executive remuneration is comprised of salary, benefits, pension, short-term incentives and long-term incentives, and each of these elements are described and justified in corporate annual reports. Future research could examine the extent to which institutional logics are deeply embedded in corporate annual reports. Particular attention could be given to the coupling/decoupling between practices and justifications.

Prior research on the diffusion of institutional logics has also overlooked how and why institutional logics are institutionalised at the organisational-level. Green et al. (2008), Lok (2010), Pye (2000, 2001, 2002), Shipilov et al. (2010) show that executives and directors do use language that is consistent with Corporate Logic and Investor Logic. However, the extent to which institutional logics are deeply embedded in the beliefs and decisions-making of organisational actors has not been studied. By observing and/or interviewing directors, future research could examine how institutional logics influence decision-making in the boardroom. Particularly attention could be given to how and why decoupling occurs. Further, observations and interviews should not be limited to directors. There is a wide range of parties involved in corporate governance such as executives, institutional investors and regulators. Understanding the opinions from this wide range would shed light on how competing institutional logics gain and loose support as well as how parties outside of companies interpret decoupling. For example, Zajac and Westphal (2004) found that investors reacted positively to adoption of stock repurchase plans irrespective of implementation, but it is not known why investors react positively to symbolic governance practices.

2.6. Conclusion

Cadbury (1992, p.2) observed, “It is, however, the continuing concern about standards of financial reporting and accountability, heightened by [corporate scandals] and the controversy over directors’ pay, which has kept corporate governance in the public eye.” Regrettably, this

observation is still relevant today. Corporate governance is a subject that has gained notoriety because of recurring accounting and corporate scandals (Aguilera and Jackson, 2010; Cheffins, 2011). The irrational exuberance of investors or stock market bubbles has also kept corporate governance in the public eye (Akerlof and Shiller, 2009; Gerding, 2006). The Dot-com Bubble demonstrated that markets and regulations cannot discipline executives who are awarded bonuses for achieving quarterly earnings targets, particularly when share prices are overvalued (Jensen, 2005). The Global Financial Crisis, precipitated by a US House Price Bubble, has reinforced this point and showed that worldwide corporate governance models offer no protection against investors' and executives' greed (Aguilera and Jackson, 2010; Clarke, 2009, 2010). In particular, the Anglo-American model of board independence and performance-based remuneration has been unable to harness the opportunistic behaviour of executives (Dalton and Dalton, 2005, 2011).

Against this backdrop, some academics have been searching for the Holy Grail of corporate governance: A way of ensuring a positive relationship between executive remuneration and firm performance (Capezio et al., 2011; Gomez-Mejia, 1994). Empirical evidence has failed to validate the prescriptions of agency theory, stewardship theory and stakeholder theory (Devers et al., 2007; Tosi et al., 2000). Continuing their search, academics have combined these theories in an effort to find a unified theory of corporate governance (e.g. Lubatkin et al., 2007; Wiseman et al., 2012). However, the quest for the Holy Grail of corporate governance is both irrational and bad for practice. It is irrational because not only are there too many variables to take into account but the variables are socially constructed and often poorly defined. There are no absolute measures of executive remuneration or firm performance. It is bad for practice because these theories can become self-activating. Ghoshal (2005) explains that as these theories are diffused in public discourse, the underlying assumptions (e.g. executives are opportunistic) become norms or socially expected.

Drawing on discursive institutionalism, the quest by academics, investors, regulators and others to find a solution to corporate governance problems is interpreted as a battle between competing beliefs systems or institutional logics. Three institutional logics are prominent in the academic and public discourse on corporate governance: Corporate Logic, Investor Logic and Stakeholder Logic. In general, the empirical evidence indicates that there has been a transition from Corporate Logic to Investor Logic in Canada, the US and the UK (Lok, 2010; Shipilov et al., 2010; Zajac and Westphal, 2004) as well as a battle between Stakeholder

Logic and Investor Logic in Germany (Fiss and Zajac, 2004, 2006). However, Fiss and Zajac (2006) point out that this is an overgeneralisation because companies have both substantively and symbolically adopted institutional logics. Further, Lok (2010, p.1305) found that executives and fund managers “can paradoxically accommodate and resist the practice and identity implications of new institutional logics at the same time.” Thus, competing institutional logics inhabit organisational fields, despite any given institutional logic appearing to be dominant.

There is small but growing body of research on the institutional logics of corporate governance. Most research has studied the diffusion of institutional logics including both discourse and practices (e.g. Chizema, 2008, 2010; Fiss and Zajac, 2004, 2006; Shipilov et al., 2010; Sanders and Tuschke, 2007; Zajac and Westphal, 1995, 2004). While institutional logics of corporate governance have a range of implications, prior research has been narrowly focused. In terms of executive remuneration, prior research has focused on the adoption of executive share option plans and justifications of these plans. However, institutional logics of corporate governance have wider implications for executive remuneration than have been studied (see Table 2.3). Drawing on the broader literature on executive remuneration, these implications are discussed in the next chapter (see Chapter 3, Sections 3.3 and 3.6). Further, the process by which institutional logics of corporate governance are embedded in the discourse and practices of companies has not been studied. Therefore, the next chapter also discusses how remuneration committees make decisions and how institutional logics may influence their decision-making (see Chapter 3, Section 3.5).

Chapter 3: Institutional Logics and Executive Remuneration

3.1. Introduction

Institutional logics of corporate governance are beliefs systems that make claims about what should be the corporate objective, how executives should behave and how internal corporate governance should be practiced (du Plessis, 2008; Zajac and Westphal, 2004). Chapter 2 identified four institutional logics, namely: Corporate Logic, Investor Logic, Political Logic and Stakeholder Logic. There is a small but growing body of research that has studied the extent to which these logics have been diffused in several countries and influence how corporate governance is practiced (see Chapter 2, Section 2.5.5). In terms of executive remuneration, prior research has focused on long-term incentive schemes and how companies justify the adoption of these schemes (Fiss and Zajac, 2004, 2006; Zajac and Westphal, 1995; 2004). However, institutional logics have a broad range of implications for executive remuneration that have not been studied. Therefore, this chapter reviews the broader literature on executive remuneration in order to understand how institutional logics may influence the remuneration committee's decision-making.

Bridging the macro-micro divide, this chapter discusses how institutional pressures at the organisational field and societal levels (i.e. the macro) are connected to the remuneration committee's decision-making (i.e. the micro). Institutional logics enable and constrain decision-making by defining what are and are not legitimate ideas and practices (Thornton and Ocasio, 2008). Further, directors' preferences and cognitive processes are not autonomous but embedded (Thornton and Ocasio, 2008). For example, Ghoshal (2005) argued that the teaching of agency theory has changed how directors and others think and act. As institutional logics are diffused through the production and consumption of texts (Phillips and Malhotra, 2008), this chapter considers how texts (e.g. corporate governance codes and remuneration consultants' reports) influence the decision-making of remuneration committees. However, remuneration committees have much latitude in making decisions because there are competing institutional logics in any given organisational field, institutional logics are often ambiguous (i.e. lack internal consistency), and symbolic discourse and actions can confer legitimacy (Thornton and Ocasio, 2008; also see Chapter 2, Section 2.4).

This chapter is organised as follows. An overview of prior research that has studied how remuneration decisions are justified is presented in Section 2. Particular attention is given to theories that have been examined in prior research. Section 3 reviews the principles of executive remuneration that have been identified in prior research. These principles (or rationales) provide directors and others with a basis for making, interpreting and justifying decisions. As only Anglo-American countries have been studied, the principles are consistent with Corporate Logic and Investor Logic.³² Section 4 discusses a range of remuneration practices and what principles remuneration committees use to justify these practices. This section also highlights ambiguities and tensions between some remuneration principles and practices. These tensions exemplify that there are competing institutional logics in organisational fields that have alternative prescriptions for how and how much executives should be remunerated. Section 5 discusses the process of remuneration decision-making. This section also explains why ambiguity and tension between remuneration principles may be tolerated. Implications for Corporate Logic and Investor Logic are discussed in Section 6. Concluding comments are made in Section 7.

3.2. Prior Research on Executive Remuneration

Agency theory has become the dominant theoretical framework for prior research on executive remuneration (Dalton et al., 2007). To test agency theory's hypotheses, many studies have examined the relationship between executive remuneration and firm performance (for reviews see Core et al., 2003; Devers et al., 2007; Gerhart et al., 2009; Gomez-Mejia and Wiseman, 1997; Murphy, 1999). Pay-performance sensitivity varies considerably between studies, although meta-analyses have identified general trends. In a meta-analysis of 137 studies, Tosi et al. (2000, p.329) found that "Changes in firm performance account for only 4% of the variance in CEO pay..." Also, in a meta-analysis of 75 studies, Rost and Osterloh (2009) found that pay-performance sensitivity has been declining over time. In light of these results, academics have re-interpreted these results to manufacture support for agency theory. Bebchuk and Fried (2004) argue that pay-performance sensitivity is weak because executives have too much power over boards and can set their own remuneration. Alternatively, Nyberg et al. (2010) argue that prior research has measured the wrong variables. They find evidence

³² Stakeholder Logic and Political Logic are not discussed in any detail in this Chapter because these Logics do not appear to be embedded in the discourse of Anglo-American countries (see Section 2.5.5).

of a positive relationship between CEO return (calculated as the change in equity value plus cash remuneration divided by initial equity value) and shareholder returns.

In the present study, agency theory is interpreted as a dogma that is deeply embedded in academic and business discourse on executive remuneration (Ghoshal, 2005). Agency theory is a dogma because academics can find support for agency theory irrespective of the empirical evidence. For example, Abowd and Kaplan (1999, p.158) argue that there may not be a strong relationship between executive remuneration and firm performance because “stock returns have shareholder expectations imbedded in them”. This flexibility in agency theory’s arguments has enabled its supporters to continue to propagate its prescriptions. Further, Rost and Osterloh (2009) argue that agency theory’s prescription of pay-for-performance has become a managerial fashion. It appears that agency theory has become institutionalised in both academic and business discourse. Essentially, agency theory is a rationalised and refined version of Investor Logic. While academics critique executives’ behaviour, they rarely critique the agency theory lens that they use to critique executives’ behaviour (cf. Ghoshal, 2005; Lubatkin, 2005). Similarly, Investor Logic is deeply embedded in business discourse (see chapter 2) and rarely critiqued in public discourse (cf. Cassidy, 23 September 2002; Madrick, 20 February 2003).

This research investigates what institutional logics and theories are embedded in academic and business discourse on executive remuneration and how these influence how remuneration decisions are made and interpreted. Essentially, it is recognised that institutional logics and theories have the power to influence individual and organisational behaviour (Alford and Friedland, 1985; Thornton and Ocasio, 2008). There have been few studies that have taken this approach (cf. Zajac and Westphal, 1995). Drawing on the institutional logics identified in Chapter 2, prior research is reinterpreted in this chapter in order to understand how institutional logics influence how companies justify executive remuneration and how remuneration committees make decisions. However, this is problematic because institutional logics and theories are ambiguous and flexible. For example, Investor Logic/agency theory does not prescribe what proportion of executive remuneration should be contingent on firm performance or how firm performance should be measured. Therefore, in reviewing prior research, particularly attention is given to the discourse of the researchers and their subjects (e.g. companies studied) because their beliefs influence how they interpret their social realities.

Table 3.1 presents an overview of prior research on executive remuneration that is relevant to the present study. There are two types of prior research that are relevant: First, those that have studied justifications of executive remuneration in public discourse (e.g. corporate governance codes and corporate annual reports); Second, those that have investigated how remuneration decisions are made, interpreted and justified by companies and their stakeholders. The latter research focuses on private discourse (e.g. opinions of directors, executives and remuneration consultants). Public discourse has been studied using archival content analysis. More often than not, a few remuneration principles (or justifications) are studied in a large sample of texts. In contrast, private discourse has been studied using qualitative methods. Typically, many aspects of executive remuneration (including multiple remuneration principles) are studied in a small sample of interviews with directors. Notably, there have been a few studies using surveys. Further, there are many theoretical lenses in prior research with agency and institutional theories being the most common. Researchers have also used multiple theories to interpret their findings (e.g. Bender, 2004). There have also been a number of studies that have no explicit theoretical lens (e.g. Kovacevic, 2009; Wade et al., 1997).

Table 3.1: Theory Testing in Prior Research

Prior Research	Research Method	Economics, Finance and Law						Management		Psychology			Sociology	
		Agency	Financial ³	Managerial Hegemony	Managerial Power	Labour Market	Human Capital	Managerial Discretion	Resource Dependence	Expectancy	Tournament	Equity	Institutional	Legitimacy
<i>Public Discourse</i>														
Zajac and Westphal (1995)	Archival Content Analysis												✓	✓
Wade et al. (1997) ¹	Archival Content Analysis													
Point and Tyson (2006)	Archival Content Analysis												✓	
Crombie et al. (2010)	Archival Content Analysis												✓	
<i>Private Discourse</i>														
Main (1993) ¹	Interviews													
St-Onge et al. (2001)	Interviews	✓				✓	✓	✓		✓	✓		✓	
Beer and Katz (2003) ¹	Survey													
Bender (2004)	Interviews	✓								✓		✓	✓	✓
Bender and Moir (2006)	Interviews	✓	✓							✓		✓		
Bender (2007)	Interviews	✓								✓				
Bender (2011)	Interviews												✓	✓
Perkins and Hendry (2005) ²	Interviews	✓												
Lawler and Finegold (2007) ¹	Survey													
Main et al. (2008)	Interviews	✓											✓	
Ogden and Watson (2008)	Interviews													✓
Ogden and Watson (2011)	Interviews				✓				✓					
Kovacevic (2009) ¹	Interviews													
Hermanson et al. (2011)	Interviews	✓		✓					✓				✓	
Main et al. (2011)	Interviews	✓											✓	
Pepper et al. (2012)	Interviews and Survey	✓								✓		✓		
Notes:														
1 No theories are explicitly tested in these studies.														
2 Perkins and Hendry (2005) examine whether agency theory-based arguments are embedded in the discourse of non-executive directors.														
3 Financial theory implies that the CEO should not hold a high percentage of their wealth in the company's shares because the CEO will be pressured, particularly if the company's share price is declining, to manipulate (or falsify) information released to the public and stock exchange.														

Prior research on public discourse has studied the diffusion of Investor Logic (agency theory-based language) and Corporate Logic (human resources management-based language) with respect to how executive remuneration is justified (Crombie et al., 2010; Point and Tyson, 2006; Zajac and Westphal, 1995). Drawing on institutional theory, these studies support the notion that institutional logics are diffused due to coercive, normative and mimetic pressures. As the manifestation of coercive and normative pressures, companies are compelled to adopt the recommendations in corporate governance codes. Mimetic pressure is also exerted on companies as their peers adopt new ideas and practices. Drawing on a symbolic management perspective,³³ Point and Tyson (2006), Wade et al. (1997) and Zajac and Westphal (1995) found that remuneration principles (justifications or rationales) in corporate annual reports can be symbolic, rather than substantive. Point and Tyson (2006, p.828) explain that, “the level of CEO compensation is less important than how firms communicate the rationales underlying their CEO compensation decisions.” Further, Wade et al. (1997) and Zajac and Westphal (1995) found that the adoption of remuneration principles dependent on demographic, economic, ownership and political factors.

Prior research on private discourse has studied how executives and directors make and justify remuneration decisions (e.g. Bender, 2004). Prior to 2000, this kind of research was almost non-existent (except Main, 1993). Motivated by corporate scandals and increasing academic and public scrutiny of executive remuneration, prior research has attempted to demystify boardroom decision-making and study the extent to which boardroom decision-making is consistent with academic theories. Most studies have argued that the opinions of executives, directors and remuneration consultants fit with (or are indicative of) agency and institutional theories (e.g. Bender, 2004; Hermanson et al., 2011; Main et al., 2008). Further, these studies have generally found that how remuneration committees make decisions can be explained using multiple theories. For example, Hermanson et al. (2011, p.40) concluded that, “the interviewees provided insights reflecting elements of four different theoretical perspectives [agency, institutional, managerial hegemony and resource dependence], highlighting the need to move beyond a simple agency theory view of corporate governance.” However, these studies have been uncritical of the opinions of directors, executives and remuneration

³³ These studies do not relate the symbolic management perspective to any particularly theory, but it can be related to legitimacy and agency theories. Legitimacy theory asserts that companies can gain/maintain their legitimacy through symbolic conformance with societal expectations (Ashforth and Gibbs, 1990). Agency theory asserts that companies may use impression (symbolic) management to deceive investors about firm performance, and executives will exploit such deception to maximise their wealth (Merkl-Davies and Brennan, 2007).

consultants. Their opinions have been treated as factual and truthful. Further, these studies have not sought the opinions of other stakeholders such as investors and regulators.

No prior research has studied the effect of institutional logics on the decision-making process of remuneration committees. Given that Corporate Logic, Investor Logic and, to a lesser extent, Stakeholder Logic shape how corporate governance is regulated and practiced (see Chapter 2, Section 2.5), it is probable that institutional logics also shape how executive remuneration is regulated and practiced. For example, Zajac and Westphal (1995) show that Corporate Logic and Investor Logic influence how long-term incentive plans are justified in US companies' proxy statements. It may be that institutional logics shape the thinking and decision-making of directors, executives and remuneration consultants because their preferences are embedded (not autonomous).³⁴ Put differently, institutional logics define what people believe is both rational and appropriate (Cyert and March, 1992; March and Simon, 1993). Reinterpreting prior research from an institutional logics perspective highlights that how directors make decisions is influenced by institutional logics. Directors use agency theory-based language (or Investor Logic) to justify their decisions (Perkins and Hendry, 2005). Additionally, directors "follow norms, rules of thumb and customary practices" to make decisions (Main et al., 2008, p.225). In this chapter, it is argued that these norms (or remuneration principles) are mostly consistent with Corporate Logic and Investor Logic.

3.3. Principles of Executive Remuneration

Remuneration principles are systems of belief and reasoning which individuals use to make, interpret and justify remuneration decisions.³⁵ For example, ASX [Australian Stock Exchange] Corporate Governance Council's (2003, p.51) main remuneration principle is, "Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined." Remuneration principles are abstract and open to interpretation, but may be substantive (i.e. linked to specific

³⁴ For example, Lubatkin et al. (2007) argue that the preferences of investors, directors, executives and others are embedded (or institutionalised) because of background and formal institutions within society (e.g. national culture) and socialisation experiences (which occur from childhood onwards, e.g. at schools and in workplaces).

³⁵ The term remuneration principle has not been formally defined in the inter-disciplinary literature on remuneration. However, there are a multitude of possible remuneration principles that have identified in prior research, although they are rarely labelled remuneration principles (e.g. St-Onge et al., 2001). Remuneration principles often take the form of idioms such as pay-for-performance and pay competitively, and are also called: accounts, clichés, excuses, explanations, justifications, reasons, and rhetoric.

remuneration practices). How individuals decide what is “sufficient and reasonable” can vary considerable. This is shown in countless newspaper articles on CEO pay (Core et al., 2008). For example, Mason (6 March 2010) reported:

“BP has defended a 40pc rise in its chief executive’s pay package to £4m as “balanced and fair”, despite a 45pc fall in profits... The decision risks angering BP’s shareholders, after almost 40pc of them voted against the company’s remuneration packages last year.”

Remuneration principles constrain and enable remuneration decision-making by defining what are and are not legitimate actions, although remuneration principles are far less constraining than laws and rules.

There is a small but growing body of research that has identified a range of remuneration principles that directors use to make and justify remuneration decisions (e.g. Bender, 2004; Crombie et al., 2010; St-Onge et al., 2001).³⁶ In general terms, remuneration principles assert that competitive levels of remuneration are required to attract, motivate and retain talented executives, but their remuneration should also be dependent on individual and company performance as well as being fair to other employees and shareholders. These remuneration principles assert that executive remuneration practices influence the behaviour of executives, which in turn influences organisational behaviour and outcomes. Further, remuneration principles are simplified versions of theories of executive remuneration (see Chapter 2, Table 2.1). For example, Zajac and Westphal (1995) found that most companies justified the adoption of long-term incentive plans by claiming that the plans will align the interests of executives with those of shareholders, which is indicative of the agency principle (see below) and agency theory (Jensen and Meckling, 1976). Overall, directors believe that if remuneration principles are implemented, then value (however that is defined) will be maximised (Bender, 2004).

Table 3.2 summarises the principles that are commonly found in codes (Crombie et al., 2010) and corporate annual reports (Crombie et al., 2010; Wade et al., 1997; Zajac and Westphal, 1995), and commonly opined by executives, directors and remuneration consultants (Beer and

³⁶ Prior research has rarely sought to identify remuneration principles that remuneration committees use to make, justify and interpret decisions (except Crombie et al., 2010). In this chapter, remuneration principles have been retrospectively identified in prior research.

Katz, 2003; Bender, 2004, 2007, 2011; Hermanson et al., 2011; Kovacevic, 2009; Main, 1993; Main et al., 2008, 2011; Ogden and Watson, 2008, 2011; Perkins and Hendry, 2005; Pepper et al., 2012; St-Onge et al., 2001). Included in Table 3.2 are definitions of the principles as well as a brief discussion of whether or not the principles are consistent with Corporate Logic and/or Investor Logic.³⁷ Zajac and Westphal (2004, p.436) only theorised one remuneration principle for each of the Logics: Corporate Logic implies that directors will “Use salary and other rewards to attract and retain scarce management talent”, while Investor Logic implies that directors will “Use incentives to align management and shareholder interests”. However, it is shown that both Corporate Logic and Investor Logic are consistent with a range of remuneration principles and, therefore, have a much broader range of implications for executive remuneration than Zajac and Westphal (2004) had envisioned.

³⁷ Stakeholder Logic and Political Logic are not discussed in Table 3.2 because stakeholder value is rarely mentioned in prior research. Shareholder value maximisation is generally accepted as the corporate objective (e.g. Bender and Moir, 2006).

Table 3.2: Principles of Executive Remuneration

Principles	Definitions	Corporate Logic	Investor Logic
Agency	The interests of executives diverge from those of shareholders, but can be aligned using performance-based remuneration.	As Corporate Logic assumes that the interests of shareholders and executives do not diverge, it is <i>incompatible</i> with the agency principle.	Investor Logic is <i>synonymous</i> with the agency principle as it assumes that the interests of shareholders and executives diverge.
Conformance	Executive remuneration practices should be consistent with best practice and (powerful and salient) stakeholders' expectations.	The conformance principle is <i>consistent</i> with Corporate Logic, unless shareholders' expectations vary from best practice or non-shareholding stakeholders' expectations.	The conformance principle is <i>consistent</i> with Investor Logic, unless shareholders' expectations vary from best practice or non-shareholding stakeholders' expectations.
Fairness	Executive remuneration should be equitable, fair and reasonable. Executive remuneration practices should account for vertical equity between executives and employees.	The fairness principle is <i>consistent</i> with Corporate Logic: To aid succession planning, employees (as future executives) should be rewarded proportionally to executives.	The fairness principle is <i>inconsistent</i> with Investor Logic. Remuneration should be based on executives' (and employees') individual contributions to shareholder value.
Human resources	To attract and retain talented executives, executive remuneration packages should be tailored to their preferences.	Corporate Logic is <i>synonymous</i> with the human resources principle as it asserts that executives should be treated with respect and dignity.	Investor Logic is <i>incompatible</i> with the human resources principle because it asserts that executives are replaceable (i.e. not talented) and malleable (i.e. incentives can programme executives to maximise shareholder value).
Market	Executives should be paid comparably to other executives in similar roles and with similar skill sets (i.e. horizontal equity).	The market principle is <i>consistent</i> with Corporate Logic, as it promotes the equitable treatment of all executives.	The market principle is <i>inconsistent</i> with Investor Logic, but how much other executives are paid is relevant information. ¹
Motivation	Executive remuneration practices should be designed to maximise the effort of executives.	The motivation principle is <i>inconsistent</i> with Corporate Logic because executives are assumed to be intrinsically motivated.	The motivation principle is <i>consistent</i> with Investor Logic because executives are assumed to be extrinsically motivated.
Pay-for-performance	Executive remuneration should vary with firm performance. That is, executives' remuneration should be 'at-risk' or only awarded if firm performance meets or exceeds expectations.	The pay-for-performance principle is <i>inconsistent</i> with Corporate Logic, unless variable remuneration is conceptualised as a sharing of rewards (or profits) between shareholders and executives.	The pay-for-performance principle is <i>consistent</i> with Investor Logic, particularly if variable pay is a large proportion of total remuneration. This ensures that executives are only paid if they add shareholder value.
Responsibility	Remuneration should vary with the executives' level of responsibility (or managerial discretion).	If responsibility is equated to position in the organisational hierarchy, then the responsibility principle is <i>consistent</i> with Corporate Logic's concern for horizontal and vertical equity.	If responsibility is equated to an executive's ability to influence firm performance, then the responsibility principle is <i>consistent</i> with Investor Logic (i.e. pay-for-performance).
<p>Note:</p> <p>1 Executive remuneration will be set between the market rate (the amount that comparable executives are paid) and executives' individual contribution to shareholder value (see managerial labour market theories, Chapter 2, Section 2.3). However, Crystal (1991) and Bebchuk and Fried (2004) argue that executive remuneration can be ratcheted upwards through the use of biased market comparisons. Similarly, Hayes and Schaefer (2009) suggest that executive remuneration can be ratcheted upwards because boards of directors may believe that their executives are above average performers. For these reasons, the market principle will be deemphasised.</p>			

Table 3.3 summarises what remuneration principles have been identified in prior research. However, Table 3.3 does not indicate the extent to which the remuneration principles have been diffused (or adopted) because prior research only studied a few principles (except Crombie et al., 2010 and St-Onge et al., 2001). Prior research has studied two types of discourse: Public discourse, which refers to studies of codes and corporate annual reports; and private discourse, which refers to studies of the opinions of executives, directors of companies, remuneration consultants. Further, prior research has found remuneration principles that are consistent with Corporate Logic and Investor Logic are deeply embedded in public and private discourse. The main limitations of prior research are only companies in the UK and the US have been extensively surveyed, influential texts (e.g. laws, regulations and codes) have been rarely analysed, and the opinions of powerful stakeholders (e.g. regulators, investors and employees) have not been studied. Next, prior research in relation to each remuneration principle and then the principles as a set is discussed.

Table 3.3: Presence of the Remuneration Principles in Organisational Discourse

Studies	Subject	Agency	Conformance	Fairness	Human Resources	Market	Motivation	Pay-for-performance	Responsibility
	<i>Public Discourse</i>								
Zajac and Westphal (1995)	Justifications of new long-term incentive plans in the proxy statements of 352 US listed companies (Forbes 500 or Fortune 500) from 1976 to 1990.	✓			✓				
Wade et al. (1997)	Justifications of CEO remuneration in proxy statements of 266 US listed companies (S&P 500) from 1992.	✓						✓	
Point and Tyson (2006)	Remuneration policies in 2002 annual reports of 23 listed companies in the banking and pharmaceutical/chemical industries from UK, France, Germany and Switzerland.	✓			✓			✓	
Crombie et al. (2010)	Recommendations in 18 US codes; and remuneration policies in 1998 and 2007 proxy statements of 50 largest (by market capitalisation) US listed companies.	✓		✓	✓	✓	✓	✓	✓
	<i>Private Discourse</i>								
Main (1993)	Interviews with 24 executives and directors from UK listed companies.		✓			✓		✓	
St-Onge et al. (2001)	Interviews with 18 senior executives from Canadian listed companies.	✓	✓		✓	✓	✓	✓	✓
Beer and Katz (2003)	Survey of 205 human resources executives from many countries who were studying at a US business school.		✓		✓		✓		
Bender (2004, 2007, 2011); Bender and Moir (2006)	Interviews with 14 directors and 16 executives from UK listed companies (FTSE 100) and 5 remuneration consultants.	✓	✓	✓	✓	✓	✓	✓	
Perkins and Hendry (2005)	Interviews with 7 non-executive directors from UK listed companies (FTSE 100) and 5 executive recruitment consultants.			✓		✓	✓	✓	
Lawler and Finegold (2007)	Survey of 768 directors from large US listed companies. Almost three-quarter of those surveyed are non-executive directors.					✓		✓	
Main et al. (2008)	Interviews with 22 non-executive directors from UK listed and private companies.	✓	✓				✓	✓	
Ogden and Watson (2008, 2011)	Interviews with 11 non-executive directors and 7 executives from UK listed companies in the water utilities industry as well as 2 remuneration consultants.		✓	✓	✓	✓	✓	✓	
Kovacevic (2009)	Interviews with 14 non-executive directors and 6 executives from AU listed companies as well as 2 remuneration consultants.					✓		✓	
Hermanson et al. (2011)	Interviews with 17 non-executive directors from US listed companies.	✓	✓	✓	✓	✓	✓	✓	
Main et al. (2011)	Interviews with 15 non-executive directors from UK listed companies.				✓		✓	✓	
Pepper et al. (2012)	Interviews with 8 non-executive directors and 7 senior executives as well as survey of 75 senior executives from UK listed companies (FTSE350).	✓		✓	✓	✓	✓	✓	

The conformance principle states that executive remuneration practices should be consistent with best practice and stakeholders' expectations (Main, 1993; St-Onge et al., 2001). For example, Bender (2004, p.529) found that, "many participants related to the perceived need to use PRP [performance-related pay] because that was "best practice" and good corporate governance." Drawing on institutional and legitimacy theories (Suchman, 1995), the conformance principle highlights that stakeholders judge companies and will confer legitimacy only if companies meet their expectations. Companies can manage their legitimacy by adopting executive remuneration practices that other companies use or are endorsed by powerful stakeholders (e.g. code issuers such as regulators or investors' associations). The conformance principle is not related to any particular institutional logic or executive remuneration practices because best practice and stakeholder expectations will vary between institutional settings. However, prior research has linked the conformance principle to the use of remuneration consultants (Bender, 2011). For example, Hermanson (2011, p.31) found that, "compensation committees follow marketplace norms and signal their commitment to best practices by hiring a consultant." Crombie et al. (2010) and Wade et al. (1997) found that remuneration consultants are widely used by US companies, indicating that the conformance principle may be widely diffused.

The human resources principle refers to the ability of companies to attract and retain talented executives and, to do this, states that executives' preferences should be taken into account in designing executive remuneration packages (Zajac and Westphal, 1995). Drawing on upper echelons theory (Hambrick and Mason, 1984) and Corporate Logic, the human resources principle "characterizes organizations as arenas for natural cooperation and rejects the assumption that employees in organizations act solely in self-interest" (Zajac and Westphal, 1995, p.286). Thus, the choice of executive remuneration practices depends on executives' preferences. This means that companies will choose executive remuneration practices that other companies use, irrespective of perceived effectiveness (Beer and Katz, 2003; St-Onge et al., 2001). This principle is widely diffused among US companies (Crombie et al., 2010; Zajac and Westphal, 1995). However, academics who believe executives are motivated by money above all other rewards have criticised the human resources principle. For example, Bender (2004, p.720) wryly argues that, "for remuneration to "attract, retain and motivate", then meeting market rates is a reasonable thing to do. The ever-increasing levels of pay could be seen as just a side-effect of this need to retain good people..."

The market principle states that the level of executive remuneration should be competitive. For example, Bender (2007, p.713) found that changes are made to executive remuneration packages because “there was generally just a desire to remain in line with “the market”.” Consistent with Corporate Logic and social comparison theory (O'Reilly et al., 1988), the market principle promotes horizontal equity among executives. For example, Perkins and Hendry (2005, p.1460) found that, “some executives [are] ‘acutely aware of what the market is paying’. Equity sensibilities then come into play.” However, the market principle is inconsistent with Investor Logic because remuneration committees should take into account executives’ contribution to shareholder value. Further, some directors have argued that the market principle creates upward pressure on level of remuneration, irrespective of performance (Bender, 2004; Bender and Moir, 2006; Hermanson et al., 2011; Main et al., 2008). Other directors also argue that the executive labour market is not efficient because executives are not directly comparable (e.g. different knowledge and skills) and executive turnover is relatively low (Perkins and Hendry, 2005). Despite these criticisms, the market principle is widely diffused among US companies (Crombie et al., 2010).

The fairness principle asserts that executive remuneration should be fair, equitable and reasonable. Consistent with Corporate Logic, the fairness principle promotes vertical (or internal) equity between executives and employees. This is desirable as employees are likely to be future executives. Crombie et al. (2010) found that the fairness principle is widely diffused in US corporate governance codes, but not in US companies’ proxy statements. While the fairness principle is often mentioned by directors, it is not always defined in terms of vertical equity (Bender, 2004; Hermanson et al., 2011; Ogden and Watson, 2011). For example, Bender (2004) found that directors had three definitions of fairness including fair to employees (i.e. vertical equity), fair to executives (i.e. horizontal equity) and fair to shareholders. Similarly, Pepper et al. (2012) found that executives defined fairness in terms of horizontal equity (or the market principle). Notably, prior research has not reported that the directors defined fairness as fair to all stakeholders. This underscores that Stakeholder Logic is not embedded in discourse of executives and directors in Anglo-American companies.

The responsibility principle contends that the level of executive remuneration should be related to the executive’s level of responsibility. Drawing on structural theory (Simon, 1957), level of responsibility can be equated to the organisational hierarchy (i.e. supervisors are paid

more than subordinates). Consistent with Corporate Logic, Simon (1957) argued that the ratio of supervisors-to-subordinates remuneration represents a social norm and employee turnover will increase if any particular firm's ratio is lower than the social norm. Alternatively, the level of responsibility can be equated to managerial discretion (Hambrick and Finkelstein, 1987). Consistent with Investor Logic, executives with greater discretion (or ability to influence firm performance) should be eligible to receive greater remuneration. For example, St-Onge et al. (2001) found that executives believe that share options are an appropriate form of remuneration for those executives who have greater influence over the share price. While Crombie et al. (2010) found that the responsibility principle is widely diffused among US companies, it is not known how remuneration committees interpret the responsibility principle (e.g. social norm or managerial discretion) because it has been not been studied in prior research of directors' opinions.³⁸

The pay-for-performance principle is self-explanatory, but it may be adopted by the remuneration committee for multiple reasons. Consistent with Corporate Logic, the pay-for-performance principle may be a symbol of the partnership between investors and executives, where shareholders and executives share the rewards (or profits). However, this interpretation is inconsistent with prior research. Typically, the pay-for-performance principle is used as a discriminator between high-performing and low-performing executives. This notion of meritocracy is consistent with Investor Logic. Further, Wade et al. (1997) found that the pay-for-performance principle can be used as a symbolic justification – signifying managerial opportunism – as companies define performance in different ways under different circumstances. While the pay-for-performance principle is more widely diffused than other principles (Crombie et al., 2010; Wade et al., 1997), remuneration committees do not necessarily believe that linking executive remuneration to firm performance will result in better organisational outcomes. Some directors are sceptical that performance-based remuneration motivates executives (Bender, 2004; Main et al., 2008; also see below), whereas other directors point to practical problems in designing and calibrating short-term and long-term incentives (Bender, 2007; Main et al., 2008, 2011; Hermanson et al., 2011). For example, Hermanson et al. (2011) found that directors are willing to alter targets following the Global Financial Crisis because existing targets would not be achieved.

³⁸ Note that St-Onge et al. (2001) interviewed executives, rather than non-executives directors.

The motivation principle asserts that money motivates executives, although this statement oversimplifies the relationship. Executives will alter their level of effort depending on the probability of attaining targets and the desirability of rewards (see expectancy theory, Lawler and Porter, 1968). Directors do have doubts that money does motivate (Bender, 2004; Main et al., 2008; Perkins and Hendry, 2005). For example, Main et al. (2008, p.230) found that some directors “do not regard executives as being driven by such extrinsic rewards...” On the other hand, other directors and executives believe that incentives can de-motivate, particularly if targets are not likely to be met (Bender, 2007; Main et al., 2008; Pepper et al., 2012; St-Onge et al., 2001). However, there may be a darker side to the use of the motivation principle. In a survey of worldwide executives, Beer and Katz (2003, p.30) found:

“The most important reason for instituting bonuses is that bonuses motivate. At the same time, executives believe that incentives only improve performance slightly, if at all... [Thus] executives use theories about motivation as rhetoric to justify their actions.”

Overall, the motivation principle is widely diffused in US codes and proxy statements (Crombie et al., 2010), reinforcing that Investor Logic is also widely diffused.

The agency principle states that incentives should be used to align the interests of executives with those of shareholders. The assumption of diverging interests underlies Investor Logic. The agency principle is widely diffused in both codes and corporate annual reports (Crombie et al., 2010; Point and Tyson, 2006; Wade et al., 1997; Zajac and Westphal, 1995).³⁹ Generally, directors and executives believe that long-term incentives (e.g. share option plans) can be used to align the interests of executives with those of shareholders (Bender, 2004; Hermanson et al., 2011; St-Onge et al., 2001). However, the agency principle has been questioned for several reasons. First, shareholders do not necessarily have homogenous interests (Lok, 2010). Second, Bender (2007) found that remuneration committees alter incentive schemes if they do not pay-out, destroying any alignment of interests. Third, Main et al. (2008) found that remuneration committees want to align interests, but attempt to do so by mimicking other companies and conforming to regulators’ and investors’ guidelines. They argued that isomorphism of practice “may lead them away from implementing remuneration arrangements that are in the best interest of long term shareholder value” (p.235).

³⁹ All of these studies investigated the US except Point and Tyson (2006). However, their research was exploratory as they only studied 23 European companies.

Remuneration principles enable and constrain how remuneration committees make decisions. Remuneration committees are required to comply with or explain why they do not comply with the recommendations of codes. These recommendations are based multiple remuneration principles (Crombie et al., 2010; Point and Tyson, 2006). In this respect, regulative and normative elements act as a constraint on remuneration committees. For example, Point and Tyson (2006, p.827) found that “most [corporate annual] reports contain sections which ‘cut and paste’ from codes...” Put differently, remuneration committees risk damaging organisational legitimacy if their decisions are not consistent with societal expectations (Bender, 2004; Main et al., 2008; Ogden and Watson, 2011). On the other hand, remuneration committees can use remuneration principles to justify and legitimise most remuneration practices because remuneration principles are flexible and open to interpretation. For example, the pay-for-performance principle does not define how pay and performance are to be measured. Remuneration principles afford remuneration committees much discretion in decision-making. This led Crystal (1991) to conclude that increases in CEO pay can be justified if firm performance is above or below expectations.⁴⁰

Remuneration committees also have to manage tensions between remuneration principles. All of the remuneration principles cannot be simultaneously enacted. For example, remuneration committees cannot enact the fairness, market and pay-for-performance principles if there are different proportional changes in the market rate for executives, the market rate for employees and firm performance. To manage these tensions, remuneration committees will have to make compromises or prioritise the remuneration principles. Empirical evidence indicates there is a significant tension between agency/pay-for-performance principles and human resources/market principles (Hermanson et al., 2011; Main, 1993; Main et al., 2008; Ogden and Watson, 2011). This tension arises because there is also “a profound tension among the demands of shareholders, management, and other stakeholders” (Hermanson et al., 2011, p.2). Similarly, Main (1993) and Main et al. (2008) found that remuneration committees have to ensure that their decisions satisfy both executives

⁴⁰ As a former remuneration consultant, Graef Crystal (1991, p.11) laments that, “I succumbed more than I should have to the two favourite siren songs of American CEOs. First, if your company has performed brilliantly, then you should pay your top people brilliantly. However, if your company has performed poorly, you can’t afford to make people suffer very much, because they will simply leave and go elsewhere; in other words, you have to keep good people. Simple logic, of course, mandates that there can be very few effective people at the top of a lousy-performing organization. But simple logic was apparently not my forte. As a result, I helped create the phenomenon we see today: huge and surging pay for good performance, and huge and surging pay for bad performance, too.”

and shareholders. Interestingly, Ogden and Watson (2011) found that remuneration committees prioritise human resources/market principles ahead of other principles because directors believe that executives will go elsewhere if they are under-remunerated relative to their peers.

There have been a few studies on the diffusion of remuneration principles. Zajac and Westphal (1995) found that US companies were more likely justify the adoption of long-term incentive plans with the human resources principle when the CEO was powerful, firm performance was high or during the late 1970s; and with the agency principle when the board was powerful, firm performance was low or during the late 1980s. Wade et al. (1997) found that US companies justified CEO pay with the pay-for-performance principle, but how performance was defined varied; and with the agency principle when ownership was widely dispersed. Further, Point and Tyson (2006) found that many of the 23 European companies that were studied used the agency, human resources and pay-for-performance principles. They also found that the wording of companies' remuneration reports had become standardised. Similarly, Crombie et al. (2010) found that largest 50 US companies' justifications of CEO pay become increasingly homogenous between 1998 and 2007. In 2007, almost all companies justified CEO pay with all of the remuneration principles, except the fairness and conformance principles (the latter was not studied). They also found that codes included most remuneration principles.

Prior research has found that all remuneration principles have been widely diffused in codes and corporate annual reports over time (Crombie et al., 2010; Wade et al., 1997). While Zajac and Westphal (1995) found that there was a transition in justification of long-term incentive plans from the human resources principle to the agency principle, Crombie et al. (2010) found that both of these principles and others were used to justify CEO pay in 2007. Drawing on institutional theory, Crombie et al. (2010) and Point and Tyson (2006) argue that coercive and normative pressures, in the form of codes, have led to the diffusion of multiple remuneration principles. They also contend that mimetic pressure will influence the adoption of remuneration principles. However, prior research has been limited in the range of countries studied. US companies have been studied in three of four papers reviewed (Crombie et al., 2010; Wade et al., 1997; Zajac and Westphal, 1995), while Point and Tyson's (2006) study of 23 European companies was exploratory. Further research is required to ascertain if this diffusion of remuneration principles is a global trend.

Adding to the diffusion research, qualitative studies have found that remuneration principles influence how remuneration committees make, justify and interpret decisions (Bender, 2004, 2007; Hermanson et al., 2011; Kovacevic, 2009; Main, 1993; Main et al, 2008, 2011; Perkins and Hendry, 2005; Ogden and Watson, 2008, 2011). For example, Bender (2004) found that directors justify the adoption of performance-related remuneration with multiple remuneration principles. To ensure that decisions are legitimate, particularly in the eyes of shareholders, directors use remuneration principles to make and justify their decisions and remuneration consultants to provide recommendations and endorse their decisions (Bender, 2004, 2007; Hermanson et al., 2011; Main et al., 2008; Perkins and Hendry, 2005; Ogden and Watson, 2008, 2011). For example, Main et al. (2008, p.234) found that “[Remuneration] Committees seek legitimacy for their decisions by recourse to norms and rules of thumb...” This search for legitimacy has both substantive and symbolic elements. Remuneration committees use remuneration principles to rationally determine what decisions to make (Bender, 2004; Bender and Moir, 2006), but they also use remuneration principles to manage stakeholders’ impressions (Bender, 2011; Hermanson et al., 2011).

Prior research has also shown that directors and executives question the rationality of the remuneration principles and are aware of inherent ambiguities (Beer and Katz, 2003; Bender, 2004; Lawler and Finegold, 2007; Main et al., 2008; Perkins and Hendry, 2005). While directors may prioritise the market principle ahead of other principles (Ogden and Watson, 2011), directors have acknowledged that the market is imperfect and executives are not necessarily interchangeable (Perkins and Hendry, 2005). Executives have specialised skills and knowledge that cannot be easily replaced (Zajac and Westphal, 2004). Also, companies cannot easily replace their executives with executives from competitors or other companies because they have unique cultures and strategies (Perkins and Hendry, 2005). Further, directors admit that enacting the pay-for-performance principle is problematic (Bender, 2004). This is illustrated by Lawler and Finegold’s (2007) survey of 768 US directors. They found that directors perceived CEO pay to be too high, but also agreed that CEO pay is based on individual and firm performance. Further qualitative (interview-based) research is required to fully understand how remuneration committees make decisions and manage tensions between remuneration principles.

3.4. Executive Remuneration Practices

There are two types of executive remuneration practices: Fixed and variable (relative to performance). Fixed remuneration includes salary, benefits and pension (or superannuation) as well as recruitment, retention and severance payments. These latter payments are often conditional on length of service (Chambers and Weight, 2008). Variable remuneration includes short-term and long-term incentives, which are dependent on financial, non-financial and/or market-based performance (e.g. total shareholder return) (Chambers and Weight, 2008). The remuneration committee has to decide what remuneration practices to use, what performance measures to use, how to set targets for performance measures, the amount of potential remuneration if targets are met (e.g. multiple of salary), and the mix and level of fixed and variable remuneration. Corporate Logic is consistent with executive remuneration packages that are weighted towards fixed remuneration and have flexible targets linked to multiple performance measures, while Investor Logic is consistent with executive remuneration packages that are weighted towards variable remuneration and have rigid targets linked to shareholder value (Zajac and Westphal, 2004; also see Section 3.6).⁴¹ Next, the discussion turns to what practices are common, how principles are tied to practices and how remuneration committees design executive remuneration packages.

Table 3.4 highlights a range of executive remuneration practices and the relationship between principles and practices. Remuneration committees face a vast array of alternatives in structuring executive remuneration packages. This reflects that there is no one best way (Larcker and Tayan, 2011) and that executive remuneration is subject to managerial fads and fashions (Rost and Osterloh, 2009). For example, the favoured long-term incentive plan amongst UK companies changed from share options to restricted shares that are contingent on relative performance in the mid-1990s (Buck et al., 2003). However, there is much homogeneity amongst executive remuneration packages in companies around the world (Fay, 2008; Murphy, 1999). Salary, short-term incentives and long-term incentives are the main components of executive remuneration, and the maximum level of short-term and long-term incentives is tied to salary (Chambers and Weight, 2008; Murphy, 1999). Earnings per share and total shareholder return are the favoured performance measures (Chambers and Weight, 2008; Zakaria, 2011). Absolute targets are preferred for short-term incentives, while relative targets are common for long-term incentives (Main et al., 2008; Pass, 2004; Zakaria, 2011).

⁴¹ Stakeholder Logic and Political Logic are rarely discussed in this chapter because these logics are not embedded in business and public discourse in Anglo-American countries (see Chapter 2, Section 2.5).

Chapter 3: Institutional Logics and Executive Remuneration

Overall, these executive remuneration practices are justified using multiple remuneration principles, particularly the human resources, market and pay-for-performance principles.

Table 3.4: Remuneration Principles and Practices

Range of Practices¹	Principles and Practices²
Base salaries and benefits - Level: Set relative to a peer group (e.g. median or upper quartile) - Peer group: Selected competitors, industry or stock exchange index	The <i>human resources</i> , <i>market</i> , and <i>responsibility</i> principles guide remuneration committees in determining the level of base salary and benefits, but they have discretion in setting the peer group and exact level (e.g. 50 th or 75 th percentile).
Pension or superannuation - Type of scheme: Defined benefit (e.g. percentage of salary upon retirement) or defined contribution - Alternatives: Higher salary or free shares	The <i>human resources</i> and <i>market</i> principles guide remuneration committees in determining the level of pension, but they have discretion in choosing the scheme.
Other: Recruitment, retention and severance - Type: Cash and/shares - Conditional: Length of service and/or performance	The <i>human resources</i> and <i>market</i> principles guide remuneration committees in setting other remuneration (e.g. these schemes may be deemed necessary if there is a perceived shortage of executive talent).
Short-term incentives - Level: Multiple of salary - Measures: Financial and/or non-financial; Internal and/or external - Target: Absolute and/or relative - Type: Cash and/or shares - Timing: Immediate and/or deferred	The <i>agency</i> , <i>human resources</i> , <i>motivation</i> and <i>pay-for-performance</i> principles guide remuneration committees in designing and calibrating short-term incentives, but they have much discretion in deciding on the specifics.
Long-term incentives - Level: Multiple of salary - Measures: Financial and/or non-financial; Internal and/or external - Target: Absolute and/or relative - Testing: When awarded and/or at vesting - Type: Cash, options and/or shares ³ - Length of vesting period (e.g. 3-10 years)	The <i>agency</i> , <i>human resources</i> , <i>motivation</i> and <i>pay-for-performance</i> principles guide remuneration committees in designing and calibrating long-term incentives, but they have much discretion in deciding on the specifics.
Minimum shareholding requirements - Level: Multiple of salary	Guided by the <i>agency</i> principle, remuneration committees may require executives to hold a portion of shares in order to align their interests with those of shareholders.
Mix of fixed and variable - From mainly fixed to mainly variable	Remuneration committees will vary the mix of remuneration depending on the emphasis placed on the <i>pay-for-performance</i> principle.
Level of fixed, variable and total - Level: Set relative to a peer group (e.g. median or upper quartile) - Peer group: Selected competitors, industry or stock exchange index	The <i>fairness</i> , <i>human resources</i> , <i>market</i> , <i>pay-for-performance</i> , and <i>responsibility</i> principles guide remuneration committees in setting the level of remuneration, but they have much discretion in choosing the peer group and exact level.
Notes: 1 These practices are based on the following sources: Anthony and Govindarajan (2007, Chapter 12); Chambers and Weight (2008, Chapter 5); Gomez-Mejia et al., (2010, Chapter 6); Larcker and Tayan (2011, Chapters 8 and 9); Murphy (1999). 2 Remuneration committees may also influenced by the <i>conformance</i> principle (e.g. selecting practices that are consistent with market norms and best practice). 3 Executives may purchase the options or shares at the market price or a discounted price. They may also be given an interest-free loan to fund the purchase.	

Base salaries and benefits are fixed remuneration. The remuneration committee's main considerations in setting the CEO's base salary and benefits are comparability with peers or horizontal equity (Bender and Moir, 2006; Main, 1993), comparability with other executives in the firm or vertical equity (Main et al., 2011), and the CEO's experience, performance and responsibilities (Ogden and Watson, 2011). Executives normally receive increases in their base salaries if it is below the median level relative to peers because directors believe that executives will be de-motivated or quit if they feel underpaid relative to their peers (Bender, 2007; Ogden and Watson, 2011). This can result in executive base salaries being ratcheted upwards, particularly due to increased disclosure requirements and competition for executive talent (Kovacevic, 2009). Further, remuneration committees gather data on base salaries paid by other companies from remuneration consultants and their professional network (Hermanson et al., 2011; Main 1993; Ogden and Watson, 2011). The level of executive base salaries are justified or legitimised to shareholders and the public by using the market principle and appealing to the authority of remuneration consultants (Main, 1993; Wade et al., 1997). However, directors have criticised the quality of remuneration consultants' data because it does not account for firm performance (Perkins and Hendry, 2005).

Pension or superannuation schemes are fixed, deferred remuneration. Prior research on remuneration committees has not studied directors' and executives' views on pensions.⁴² But Main et al. (2008) comments that pension schemes are not often changed because remuneration committees want to avoid revisiting past decisions, which may require a shareholder vote. However, the wider literature on executive remuneration does suggest that pensions do influence executive behaviour. Bebchuk and Fried (2004) believe that executive pensions are not adequately disclosed and this allows boards to use pensions to increase executive remuneration without incurring shareholder outrage. Indeed, the empirical evidence indicates that pensions are a very significant portion of executive remuneration (Bebchuk and Jackson, 2005). In a study of large US companies, Sundaram and Yermack (2007) found that as the CEO's pension increased relative to the CEO's shareholding, the firm's risk declined. As pensions are equivalent to unsecured debt, executives' interests are aligned with those of unsecured debt-holders, which results in executives pursuing a low-risk strategy (Frydman and Jenter, 2010). Cadman and Vincent (2011) also found that pensions insure executives against risk and are not related to firm performance.

⁴² For instance, Bender and Moir (2006, p.82) comment that, "in common with much other research in this field... little attention was paid to perks and pensions."

Recruitment, retention and severance payments are normally fixed remuneration that companies use to attract and retain executives as well as reward long-serving executives, respectively.⁴³ These payments have been controversial because of the amounts paid and the lack of performance conditions (Chambers and Weight, 2008; Crystal, 1991; Frydman and Jenter, 2010; Gerhart et al., 2009; Monks and Minow, 2004).⁴⁴ Prior research on remuneration committees has given little attention to these payments, but some important insights have been made. Essentially, directors believe that recruitment and retention payments negate high (or unplanned) executive turnover (Bender, 2004; Hermanson et al., 2011; Main et al., 2011; Ogden and Watson, 2011). Directors also view long-term incentive plans as retention schemes (Pepper et al., 2012).⁴⁵ Further, severance payments do concern directors. They believe that the proportion of fixed remuneration (including severance payments) is too high and are less supportive of severance payments relative to other forms of remuneration (Lawler and Finegold, 2007). While severance payments are negotiated between boards (and their lawyers) and exiting CEOs (and their lawyers), boards do want to ensure that severance payments are not excessive (relative to the market norm), are fair to shareholders and will not outrage the public (Hermanson et al., 2011).

Short-term and long-term incentives are conditional on the achievement of targets, expressed as a range with a minimum and maximum (Murphy, 1999; Murphy and Jensen, 2011). While incentives vary with performance within the range, incentives are zero below the minimum and capped above the maximum. Short-term incentives are dependent on a range of performance measures including financial and non-financial; whereas, long-term incentives are dependent on earnings per share and total shareholder return (Zakaria, 2011). In a recent study of UK companies, Zakaria (2011) found that earnings per share targets are set relative to inflation (change in the retail price index) and total shareholder returns are set relative to a group of peer companies. Further, incentives may take the form of cash, options and/or shares. Short-term incentives are paid in cash or shares, but executives may be required (or given the option) to defer part of their incentive for one or more years (Chambers and Weight, 2008; Zakaria, 2011). Long-term incentives are paid in options or shares, but do not vest for

⁴³ Recruitment and retention payments may be contingent on performance.

⁴⁴ The controversy is reflected in the colloquialisms given to these payments: A recruitment payment is called a golden hello, a retention payment is called golden handcuffs and a severance payment is called a golden handshake (or a golden parachute, if a CEO is dismissed following a merger).

⁴⁵ This results in conflict with the pay-for-performance principle as, for example, when remuneration committees re-price share options in order to retain executives, they are destroying the link with performance.

three to five years and may be subject to additional targets upon vesting (Chambers and Weight, 2008; Zakaria, 2011).

Prior qualitative research on remuneration committees has described how short-term incentives are determined. Short-term incentives (or annual bonuses) are conditional on financial and non-financial targets that are linked to strategy (Bender, 2004; Main, 1993; Main et al., 2008). Targets and performance measures are changed (or updated) if strategy or economic conditions change (Bender, 2007; Hermanson et al., 2011). For example, ad hoc incentives were awarded because targets were missed due to the Global Financial Crisis (Hermanson et al., 2011). Directors have commented on the difficulty in selecting performance measures and setting targets that are fair to executives and shareholders (Hermanson et al., 2011; Main et al., 2011). Bender and Moir (2006) found that directors are reluctant to use performance measures that reflect corporate social responsibility (or non-shareholding stakeholder) objectives. This reinforces directors' belief that investors are the most important stakeholder. However, prior research has not discussed several critical issues in depth: First, the process of selecting performance measures and setting targets; second, awarding incentives as cash or shares and the deferral of awards (although Bender and Moir (2006) commented that deferral and matching of deferred awards are common); and third, claw-back provisions if future performance is very poor.

Similarly, prior qualitative research on remuneration committees has described how long-term incentives are determined. Long-term incentives are conditional on earnings per share growth and relative total shareholder return (Bender and Moir, 2006; Main et al., 2008; Ogden and Watson, 2008, 2011). The conformance and market principles and remuneration consultants' advice influence the selection of performance measures and targets (Bender, 2007, 2011; Main et al., 2008; Ogden and Watson, 2011). Directors and executives have criticised relative performance measures because the targets are uncertain, particularly if the comparator group is comprised of few companies (Bender, 2007; Main et al., 2011; Pepper et al., 2012). Further, long-term incentives are paid as cash, options or shares and do not vest for at least three years (Ogden and Watson, 2011). Directors argue that long-term incentives counteract myopic behaviour that is encouraged by short-term incentives (Bender 2004; Bender and Moir, 2006). However, there is limited discussion of several critical issues: First, the length of vesting period (3-5 years is common); second, the use of loans to executives to buy options

or shares; third, a minimum shareholding requirement (cf. Bender, 2007); fourth, the proportion of the CEO's wealth held in the company's shares (cf. Bender and Moir, 2006).

The mix and level of fixed and variable remuneration varies considerable between countries, although the mix is similar in Australia, New Zealand and UK (Mishel et al., 2007; Fernandes et al., 2009). Prior qualitative research on remuneration committees has discussed how the mix and level of remuneration is determined. The mix and level of remuneration is justified with multiple remuneration principles, particularly agency, human resources, market and pay-for-performance (Bender and Moir, 2006; Ogden and Watson, 2011; Point and Tyson, 2006; Wade et al., 1997; Zajac and Westphal, 1995). Potential variable remuneration is expressed as a proportion of fixed remuneration (Bender, 2007; Bender and Moir, 2006; Ogden and Watson, 2008, 2011). An increase in fixed remuneration causes an increase in potential variable remuneration (Ogden and Watson, 2011). Also, remuneration committees tend to increase potential variable remuneration to alter the mix, rather than decreasing fixed remuneration (Bender, 2007). Overall, remuneration committees believe that increasing remuneration is necessary to attract and retain executives, irrespective of firm performance (Bender, 2007; Ogden and Watson, 2011). However, discussion of these issues in prior qualitative research has been limited.

There has been surprisingly little research that has documented the executive remuneration practices that are used by companies. Typically, executive remuneration practices are discussed in books (e.g. Chambers and Weight, 2008; Gomez-Mejia et al., 2010), rather than journal articles. Surveys of executive remuneration practices are limited to those published by remuneration consultants (e.g. Tower Perrins and Frederick W. Cook & Co). Instead, most research has studied the relationship between the amount of executive remuneration and firm performance (Devers et al., 2007; Gerhart et al., 2009; Tosi et al., 2000). However, to study how institutional logics are embedded in discourse and influence practice necessitates the documenting of both executive remuneration practices and justifications of these practices. Several studies of corporate annual reports have shown that companies use a range of remuneration principles to justify executive remuneration practices (Crombie et al., 2010; Point and Tyson, 2006; Wade et al., 1997; Zajac and Westphal, 1995). But these studies have not examined how the range of executive remuneration practices are justified and if these justifications are coherent and logical as a whole. Future research should investigate the

tensions between principles and practices, particularly in institutional settings with competing institutional logics.

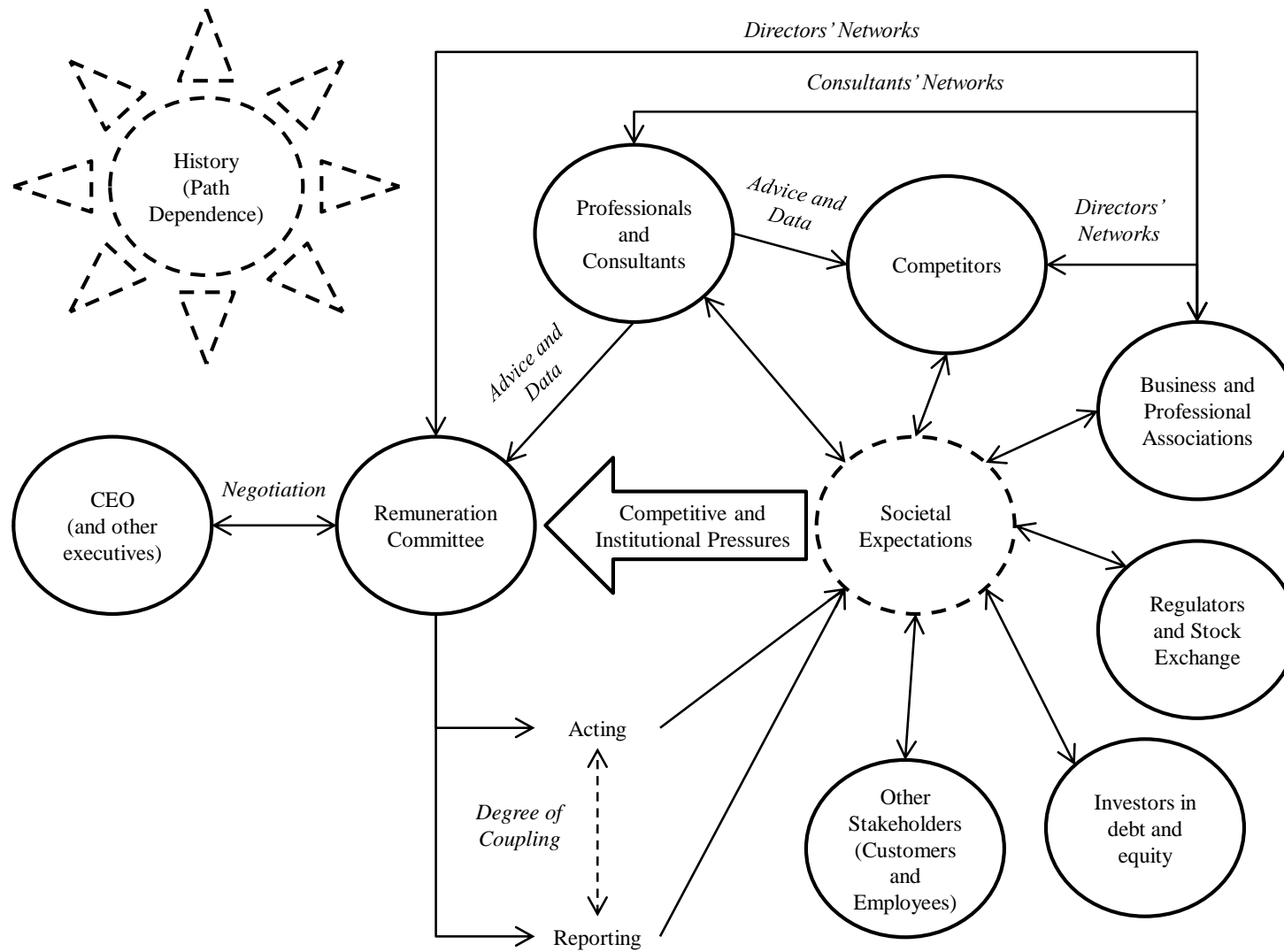
Similarly, prior qualitative research on remuneration committees has been limited to extensive descriptions of remuneration decision-making (e.g. Bender, 2004; Ogden and Watson, 2008). There have been few studies of how remuneration committees design executive remuneration practices (cf. Bender, 2004, 2007). For example, Perkins and Hendry (2005, p.1450) claim that they intend to investigate how remuneration committees set the mix and level of remuneration, but they do not answer this research question. Further, prior qualitative research has provided limited insight into how performance measures are selected and targets are set. The main finding from prior qualitative research is that multiple remuneration principles influence how remuneration committees make decisions, but the human resources and market principles may be prioritised ahead of other principles (Bender, 2004, 2007; Hermanson et al., 2011; Main et al., 2008; Ogden and Watson, 2011). However, how institutional logics influence how remuneration committees prioritise remuneration principles and design remuneration packages has not been studied. Reinterpreting prior research suggests that Corporate Logic and Investor Logic are engrained in the beliefs and actions of remuneration committees, but further research is still required.

3.5. Remuneration Decision-Making

In general terms, the remuneration committee has three decisions to make: How to remunerate the CEO; how much to remunerate the CEO; and how to report these decisions to stakeholders. As aforementioned, remuneration principles set the framework in which the first two decisions are made. There is a standard remuneration package that executives receive (see Table 3.4) and a standard process by which remuneration is decided (see below). While the remuneration committee still has much discretion in making these decisions, they have to cope with much uncertainty and competing interests between stakeholders (Main et al., 2008, 2011). Reporting is another avenue by which the remuneration committee can create discretion. Decision-making can be decoupled from reporting (Merkl-Davies and Brennan, 2007). Next, how the remuneration committee makes decisions in a complex and uncertain institutional environment is discussed. Particular attention is given to how institutional logics may influence the remuneration committee's decisions.

Figure 3.1 depicts the remuneration committee's institutional environment. There are many parties that influence how the remuneration committee makes decisions. First, the remuneration committee's decisions will be influenced by past decisions (i.e. path dependent) and societal expectations (Bender, 2004; Hermanson et al., 2011; Main et al., 2008), although these influences may be muted if stakeholders have competing interests (Main et al., 2011) or codes have non-specific guidelines (Ogden and Watson, 2008). Second, the remuneration committee's decision-making is influenced through their negotiation with the CEO (and other executives) in setting their contract and reviewing their performance (Bebchuk and Fried, 2004; Main et al., 2011). Third, remuneration consultants provide data and advice to the remuneration committee which influences their decision-making (Bender, 2011; Ogden and Watson, 2011). Fourth, how directors make decisions will also be influenced by their interactions with peers and others (Main et al., 2008; Perkins and Hendry, 2005). However, the remuneration committee can alter societal expectations through acts of resistance (e.g. non-disclosure of executive remuneration) (Chizema, 2008), institutional leadership (e.g. directors as writers of new codes) (Jones and Pollitt, 2004) and impression management (e.g. using rhetoric to legitimise remuneration practices in corporate annual reports) (Merkl-Davies and Brennan, 2007).

Figure 3.1: Remuneration Committee's Institutional Environment



Remuneration committees decide how much to remunerate executives. However, while directors believe that executive remuneration is excessive, they also believe that they cannot reduce executive remuneration because if they do not pay at the market rate then they risk losing talented executives (Hermanson et al., 2011; Lawler and Finegold, 2007; Ogden and Watson, 2011). Directors also believe that executives are not interchangeable, which partially mitigates this risk (Perkins and Hendry, 2005). Further, Bebchuk et al. (2002) argues that executive remuneration is increasing because executives have captured the pay setting process. For example, in a study of the 1994 proxy statements of 576 large US companies, Vafeas (2000, p.362) found that, “Executive pay is primarily set by peer directors in similar firms, both active and retired.” On the other hand, Ogden and Watson (2011) argue that ever-increasing remuneration is not a result of managerial power, but directors’ belief in the human resources and market principles. Directors also believe that the benefits of lower executive remuneration are outweighed by the costs of higher executive turnover and dissatisfied executives (Ogden and Watson, 2011).

Remuneration committees use remuneration principles to design executive remuneration packages because they believe that the remuneration principles are rational and legitimate (Bender, 2004; Main et al., 2008; Ogden and Watson, 2011). The quotes from directors in most studies illustrate that the remuneration principles are embedded in their thinking and discourse (Bender, 2004; Hermanson et al., 2011; Main et al., 2008; Ogden and Watson, 2011). Further, studies have found that remuneration committees are concerned with legitimacy as they want to minimise criticism from stakeholders, particularly institutional investors (Bender, 2004; Hermanson et al., 2011; Main et al., 2008; 2011). Remuneration committees have to interpret societal expectations and decide what is and is not legitimate, but this can be problematic. For example, Ogden and Watson (2008) found that remuneration committees had difficulty in designing long-term incentive plans that are legitimate because codes did not provide specific guidance (i.e. rules or templates). This affords remuneration committees a degree of discretion, although a lack of specific guidance may result in mimetic isomorphism. This is echoed by Hermanson et al. (2011, p.40): “there is strong pressure not to go beyond market norms or be out of step with peers.”

Remuneration consultants and directors’ networks also influence how remuneration committees make decisions (Perkins and Hendry, 2005). Remuneration consultants’ data informs remuneration committees of the market rates for executives (e.g. lower quartile,

median and upper-quartile relative to peers). Remuneration committees receive data from multiple remuneration consultants to reduce the risk of biased data (Bender, 2011; Ogden and Watson, 2011; Perkins and Hendry, 2005).⁴⁶ Remuneration consultants also offer advice to remuneration committees, particularly on recent trends in long-term incentive schemes (Bender, 2011; Ogden and Watson, 2008). Bender (2011, p.392) concludes that, “[remuneration consultants diffuse] current practice more widely and institutionalizing it as “best practice.”” Remuneration committees believe that using remuneration consultants is rational and will legitimise their decisions (Bender, 2011; Ogden and Watson, 2011). Further, remuneration committees also receive advice through their networks (e.g. professional and social ties). This ensures that their decisions are consistent with their peers’ decisions (Perkins and Hendry, 2005). This may reinforce remuneration consultants’ advice because there are few remuneration consultants and so it is likely that some of their peers are also advised by the same remuneration consultants (Bender, 2011).

Prior qualitative research on remuneration committees has rarely discussed succession planning (e.g. hiring and firing the CEO). Jensen et al. (2005) argues that the remuneration committee’s most important role is to negotiate the CEO’s employment contract because it sets the framework for executive remuneration. Khurana (2002) contend that boards search for CEOs that are charismatic, but such individuals are also often narcissistic and expect to be paid well above the median in the market. Jensen et al. (2005) believe that boards weaken their negotiating power by only negotiating the employment contract after they have decided which candidate they want as the CEO. The negotiating power of boards is further weakened because candidates use talent agents to negotiate their employment contract (Jensen et al., 2005; Khurana, 2002; Rajgopal et al., 2011). From an Investor Logic perspective, recruitment payments and employment contracts that include guaranteed bonuses and high severance payments are a sign of excessive managerial power (Bebchuk and Fried, 2004). While remuneration committees may or may not negotiate new CEOs’ employment contracts, succession planning has a significant bearing on how remuneration committees will make decisions (e.g. employment contracts can reduce their discretion). Further research is required to understand this process.

⁴⁶ From a managerial power perspective, remuneration committees may choose the remuneration consultant that provides data indicating an increase in remuneration is required to meet the market rate (Bebchuk and Fried, 2004). In this respect, remuneration committees collaborate with (or are controlled by) executives. However, prior qualitative research on remuneration committees appears not to support this perspective, although this issue has not been extensively studied (Bender, 2011; Ogden and Watson, 2011; Perkins and Hendry, 2005).

The remuneration committee also evaluates the CEO's performance on an annual basis, which may result in the CEO's employment contract being revised and new incentive schemes being adopted (Bender, 2007; Hermanson et al., 2011). The negotiation process may be simply/brief or complex/time-consuming and may include: CEO self-evaluation, formal meetings between chairman and CEO, formal meetings of the remuneration committee, advice from remuneration consultants and institutional investors (Bender, 2011; Hermanson et al., 2011; Main et al., 2011). The remuneration principles set the framework in which performance reviews occur, particularly the human resources and market principles (Bender, 2011; Ogden and Watson, 2011). However, the process of reviewing the CEO's performance is not objective because executives also negotiate with remuneration committees. Executives use the fairness and market principles to argue that they should be paid comparably to other executives (Perkins and Hendry, 2005). From an Investor Logic perspective, Bebchuk and Fried (2004) warn that executives have too much power in this negotiation process because they can influence director appointments. On the other hand, Ogden and Watson (2011) argue that executives do not unduly influence remuneration committees; it is the remuneration principles (i.e. prevailing social norms) that influences remuneration committees.

There is often change in executive remuneration practices as existing schemes are modified, new schemes are adopted, and existing schemes are abandoned. Remuneration committees use remuneration principles as a framework to determine what remuneration practices to adopt and as rhetoric to justify the adoption of remuneration practices (Bender, 2004; Zajac and Westphal, 1995). Adopting remuneration practices that shareholders perceive to be legitimate is particularly important (Bender, 2004; Main, 1993; Ogden and Watson, 2008). Indeed, remuneration committees seek the approval of institutional investors over changes (Bender, 2011; Main et al., 2011). Minor changes to remuneration practices are also made. Targets are often revised downwards because executives and directors believe existing targets are unrealistic (Hermanson et al., 2011). Whether changes are major or minor, Bender (2007, p.709) found:

“Reasons given for making changes included: increases due to being below-market; changing performance-related schemes that did not pay out or paid less than expected; changes in the company's culture or strategy; changes to senior personnel; and compliance with good practice in human resource management and in corporate governance.”

Overall, change is motivated by executives' and directors' perceptions of scheme efficacy, which is shaped by their interests, societal expectations and remuneration principles.

Societal expectations become visible in codes. These are produced by a range of powerful stakeholders such as directors' associations, investors' associations, regulators and stock exchanges (Aguilera and Cuervo-Cazurra, 2004). Prior research has assumed that codes influence how remuneration committees make decisions (e.g. Main, 2006). Indeed, remuneration committees have a strong desire for their decisions to be perceived as legitimate (Bender, 2004; Hermanson et al., 2011; Main et al., 2008). However, prior research has not acknowledged that directors rarely discuss codes (e.g. Bender and Moir, 2006; Main et al., 2008). Instead, directors talk of 'best practice' and 'good corporate governance', which may or may not relate to codes (Bender, 2004, 2007; Hermanson et al., 2011). This may be because codes do not provide specific guidelines. For example, Ogden and Watson (2008) found that the lack on guidance on designing long-term incentive schemes provided in codes frustrated remuneration committees. Ascertaining the influence of codes on remuneration committees requires further research.

Conforming to societal expectations involves not only complying with codes, but also appeasing stakeholders, particularly investors. Indeed, remuneration committees are extremely concerned with institutional investors' perceptions of their decisions (Bender, 2011; Main et al., 2011; Perkins and Hendry, 2005). There are two forms of conformance: substantive and symbolic. Zajac and Westphal (1995, 2004) found that investors react positively to both forms of conformance. Thus, remuneration committees may be able to manage societal expectations, particularly if societal expectations conflict with executives' expectations, by decoupling remuneration decision-making from remuneration reporting. Prior qualitative research has not investigated this possibility, although Hermanson et al. (2011) found that claims of remuneration consultants' independence are partially symbolic because executives have some influence over their selection. Instead, prior qualitative research has emphasised remuneration committees' desire to substantively conform to societal expectations (Bender, 2004; Main et al., 2008, 2011; Ogden and Watson, 2008, 2011). However, the process of preparing the remuneration disclosures and the remuneration committee's role in this process has not been studied. Future research should investigate

whether directors, executives or public relations consultants use impression management techniques in preparing remuneration disclosures.

There has been friction between shareholders and boards, especially over how much executives have been paid (Chambers and Weight, 2008; Murphy, 2011). Say on pay legislation has been introduced in a number of countries (e.g. Australia in 2004, UK in 2002 and US in 2010). This gives shareholders an advisory vote on the remuneration report (although Australia introduced a binding vote in 2011). There is a small but growing body of research on the effects of say on pay legislation. This research has found that boards modify executive remuneration practices following a significant negative vote, but such changes are muted (Conyon and Sadler, 2010; Poulsen et al., 2010). Prior qualitative research on remuneration committees has rarely studied the impact of the advisory vote on remuneration decision-making. However, Bender (2011) and Main et al. (2011) briefly comment that directors want to avoid a significant negative vote. Potential embarrassment explains why directors are concerned with consulting shareholders, particularly institutional investors, and securing their support ahead of a vote at the annual general meeting. This extends to all resolutions on which shareholders vote (Main et al., 2008).

The media and academics also have a significant role in corporate governance. For example, the US stock options backdating scandal in 2006. Academics (e.g. David Yermack in 1997 and Erick Lie in 2004) discovered that US companies were backdating share option grants so that share options appeared to be issued at the money, rather than in the money (Nowicki, 2008). The Wall Street Journal named the companies that had been backdating stock options (Nowicki, 2008). During mid-to-late 2006, there was intense media scrutiny of companies involved in backdating stock options and, consequently, greater executive turnover in those companies (Wiersema and Zhang, 2011). Other studies have also found that media scrutiny influences the decision-making of boards, regulators and investors (Dyck and Zingales, 2002; Gorman et al. 2009). On the other hand, Core et al. (2008, p.1) found “little evidence that firms respond to negative press coverage by decreasing excess CEO compensation or increasing CEO turnover.” Similarly, prior qualitative research on remuneration committees has rarely mentioned the media, although directors do not want to attract media scrutiny or negative publicity (Hermanson et al., 2011; Perkins and Hendry, 2005). Future research should investigate the extent to which actual and potential media scrutiny acts as a constraint on remuneration committees.

It is also likely that history will influence how remuneration committees make decisions. Drawing on resource dependence theory (Pfeffer and Salancik, 1978) and upper echelons theory (Hambrick and Mason, 1984), it is postulated that executives' and directors' past experiences significantly influence their decision-making. Note that experience is a composite variable and includes educational, professional and personal experiences. The management literature has found that experience significantly influences decision-making (for reviews, see Carpenter et al., 2004; Hambrick, 2007; Hillman et al., 2009). For example, in a quantitative study of strategic decision-making in US companies, Westphal and Frederickson (2001, p.1132) found that, "Directors' strategic preferences may be biased by their prior experiences". Prior qualitative research on remuneration committees has rarely studied the influence of experience on decision-making. However, several studies have noted that directors made specific decisions because of their past experiences (Kovacevic, 2009; Ogden and Watson, 2008, 2011; Perkins and Hendry, 2005). Further, to be selected as a director and serve on the remuneration committee, individuals must be judged by incumbent directors to have had certain experiences (Hermanson et al., 2011). This increases the potential for group-think in decision-making (Dorff, 2007; Perkins and Hendry, 2005).

Societal expectations also influence how remuneration committees make decisions, although the degree of influence can vary considerable (Bender, 2004, 2007, 2011; Hermanson et al., 2011; Main et al., 2008; Ogden and Watson, 2008; 2011). For example, Bender (2004, p.531) found that, "There was strong evidence that both coercive and mimetic isomorphism act to ensure that companies use PRP [performance-related pay]." When making decisions, remuneration committees take into account a range of stakeholders' interests (or, at least, their perception of stakeholders' interests) including, from most to least important, executives, directors (from other companies), investors, regulators, media (or public opinion), employees and customers (Bender and Moir, 2006; Hermanson et al., 2011). Note that employees and customers are rarely mentioned in prior qualitative research on remuneration committees. Remuneration committees view their main role as balancing the competing interests of executives and shareholders (Bender, 2004; Hermanson et al., 2011; Main et al., 2008, 2011; Ogden and Watson, 2011; Perkins and Hendry, 2005). Thus, while societal expectations are comprised of the views of many stakeholders, only the views of executives, directors and investors strongly influence remuneration committees.

While prior qualitative research on remuneration committees has studied many aspects on decision-making, the extent to which institutional logics are embedded in societal expectations and influence remuneration decision-making have not been studied. However, some inferences can be drawn from prior research. There is an institutional battle between Investor Logic, Corporate Logic and, to a lesser extent, Stakeholder Logic in the US and UK (Green et al., 2008; Lok, 2010; Zajac and Westphal, 2004). Consistent with both Corporate Logic and Investor Logic, but not Stakeholder Logic, remuneration committees are primarily concerned with maximising shareholder value, rather than stakeholder value (Bender and Moir, 2006; Hermanson et al., 2011). Stakeholder value maximisation is not mentioned in any of the prior qualitative research. Consistent with Corporate Logic, but not Investor Logic, remuneration committees portray executives as trustworthy professionals that are only partially motivated by financial rewards (Bender, 2004; Ogden and Watson, 2011). Essentially, the institutional battle is manifested in the tension between wanting to attract and retain talented executives and strictly maintaining performance-based remuneration.

Institutional logics of corporate governance have been studied extensively (see Chapter 2, Section 2.5), but how these institutional logics influence remuneration principles, practices and processes has been scantily studied. Corporate Logic is a natural fit with directors, who are former executives, and executives. Directors and executives believe that they are worthy of professional autonomy and will manage the company in the best interests of shareholders (Lok, 2010; Witt and Redding, 2012). Remuneration committees want to make decisions that are both fair to executives and shareholders (Bender and Moir, 2006; Hermanson et al., 2011). However, directors and executives may not be collective-serving stewards, but self-serving agents. They may use remuneration principles to justify how much they are paid (Beer and Katz, 2003; Wade et al., 1997) and certain remuneration practices (e.g. long-term incentives) to avoid investor scrutiny (Zajac and Westphal, 1995). Such actions are consistent with managerial power theory and Investor Logic. However, Ogden and Watson (2011) argue that remuneration committees are not unduly influenced by executives, but are influenced by their belief in the human resources and market principles. In any case, this reinforces that there may be an institutional battle between Corporate Logic and Investor Logic, which is played out in the decision-making of remuneration committees.

3.6. Institutional Logics and Executive Remuneration

There are four institutional logics of corporate governance, each of which has different prescriptions for the executive remuneration principles, practices and processes that companies should adopt. Corporate Logic is consistent with the fairness, human resources and market principles, Investor Logic is consistent with the agency, motivation and pay-for-performance principles, and both Logics are consistent with the conformance and responsibility principles (see Table 3.2). It is likely that Political Logic and Stakeholder Logic are also consistent with the same remuneration principles as Investor Logic and Corporate Logic, respectively, except that the conformance principle – which emphasises stakeholders' expectations – will be prioritised ahead of the other principles. Further, Corporate Logic and Stakeholder Logic imply that executives should receive mainly fixed remuneration, whereas Investor Logic and Political Logic imply that executives should receive mainly variable remuneration (see Chapter 2, Table 2.3). The main distinction between Corporate Logic and Stakeholder Logic is that executives are assumed to believe that the greatest good for the greatest many can be attained if all companies pursue shareholder value maximisation, rather than stakeholder value maximisation (Davis et al., 1997; Preston, 1998). In contrast, the main distinction between Investor Logic and Political Logic is that the targets on which executives' short- and long-term incentives depend are related to shareholder value, rather than stakeholder value.

Corporate Logic and Investor Logic are deeply embedded in business discourse, rather than Political Logic and Stakeholder Logic. Remuneration committees are concerned with stakeholders' interests, but shareholders' interests appear to be prioritised ahead of those of non-shareholding stakeholders (Bender, 2004; Bender and Moir, 2006; Hermanson et al., 2011; Main et al., 2008; Ogden and Watson, 2011). Further, given that the most common performance measures are earnings per share and total shareholder return, performance measures are shareholder-oriented, rather than stakeholder-oriented (Bender and Moir, 2006; Main et al., 2008; Ogden and Watson, 2011; Zakaria, 2011). Prior research has also shown that multiple remuneration principles are widely diffused in corporate annual reports (Crombie et al., 2010; Wade et al., 1997; Zajac and Westphal, 1995). This implies that both Corporate Logic and Investor Logic are legitimate discourses: the institutional field is pluralistic (Zajac and Westphal, 2004). Alternatively, Corporate Logic and Investor Logic may be merging into a new logic. However, there has been a trend towards Investor Logic as the proportion of performance-based remuneration has increased over time, bonus claw-back

provisions have been introduced, and shareholders vote on remuneration reports (Chambers and Weight, 2008; Wells, 2011). Further research should investigate if these trends (i.e. a shift from Corporate Logic to Investor Logic) have influenced the mindset of directors and executives.

Table 3.5 outlines the expected differences between Corporate Logic and Investor Logic in terms of executive remuneration practices and the remuneration principles tied to those practices. There has only been a single study on the implications that Corporate Logic and Investor Logic have for executive remuneration practices. Zajac and Westphal (1995) found that the adoption of new long-term incentive schemes was justified with the human resources principle (Corporate Logic) and/or the agency principle (Investor Logic). However, they did not investigate whether the structure of these long-term incentive schemes varied depending on the justification provided. Thus, prior research provides almost no guidance on how executive remuneration practices vary between Corporate Logic and Investor Logic. The expected differences detailed in Table 3.5 are drawn from agency and stewardship theories' implications for executive remuneration practices (Davis et al., 1997; Grundei, 2008; Jensen et al., 2005), and the general framework of corporate governance (see Chapter 2, Section 2.5). While executive remuneration practices consistent with Corporate Logic emphasise trust and professional autonomy, those consistent with Investor Logic emphasis control and direction (i.e. executive behaviour can be programmed). Note that while differences between Stakeholder Logic and Political Logic are not sketched here, some differences are noted in the discussion that follows.

Table 3.5: Executive Remuneration Principles and Practices – Revisited

Components	Corporate Logic	Investor Logic
<i>Fixed Remuneration</i>		
1. Base salary and benefits	<i>Practice:</i> Level is positioned at the median relative to peers, although may be constrained by the rate of change in employees' salaries and wages. However, it is inconsistent with Corporate Logic if the level is positioned above the median relative to peers. <i>Justification:</i> Fairness, human resources and market principles.	<i>Alternative practices:</i> a. Level positioned at median (or below) relative to peers. b. Level is positioned at upper quartile relative to peers for executives deemed to be high performers. If this occurs, base salary is another type of variable remuneration. <i>Justification:</i> Pay-for-performance principle.
2. Pension / Superannuation	<i>Scheme:</i> Defined benefit, which offers executives certainty. <i>Level:</i> Median relative to peers. <i>Justification:</i> Fairness, human resources and market principles.	<i>Scheme:</i> Defined contribution, which limits company liabilities. <i>Level:</i> Median (or below) relative to peers. <i>Justification:</i> Pay-for-performance principle.
3. One-off payments for recruitment, retention and severance	<i>Practice:</i> Payments are conditional on continuous employment, and severance payments are unconditional. None are conditional on performance, which demonstrates trust in executives. <i>Justification:</i> Human resources principle.	<i>Practice:</i> Payments are conditional on performance targets. Note: Severance payments are inconsistent with Investor Logic because they are a sign of excessive executive power. <i>Justification:</i> Motivation and pay-for-performance principles.
<i>Variable Remuneration</i>		
4. Short-term incentives (Annual bonus)	<i>Performance measures:</i> Financial and non-financial. Balanced scorecard preferred, but financial is the ultimate end. <i>Incentive:</i> Cash or shares paid immediately. Also, profit-sharing. <i>Justification:</i> Internal measures reflect 'true' firm performance; The Fairness principle for profit-sharing (including employees).	<i>Performance measures:</i> Financial and non-financial, but financial are weighted higher. Economic Value Added TM preferred. <i>Incentive:</i> Cash or shares with a portion deferred for 1-3 years. <i>Justification:</i> Internal measures can be manipulated by executives; Agency, motivation and pay-for-performance principles.
5. Long-term incentives	<i>Schemes:</i> Unconditional share options with a vesting period of 5-10 years, or restricted shares that executives purchase using interest-free loans. <i>Performance measures:</i> But if conditional, financial (e.g. earnings per share) preferred, so that executives have a degree of control. <i>Justification:</i> Human resources principle.	<i>Schemes:</i> Share options or restricted shares which are conditional on shareholder-oriented targets with a vesting period of 3-5 years. <i>Performance measures:</i> External (e.g. total shareholder return relative to competitors) preferred as executives cannot manipulate. <i>Justification:</i> Agency, motivation and pay-for-performance principles.
6. Minimum shareholding requirements	Not required, but executives are not discouraged from owning shares.	<i>Practice:</i> The value of the minimum shareholding is expressed as a percentage of base salary. <i>Justification:</i> Agency principle.
<i>Total Remuneration</i>		
7. Mix of fixed and variable	<i>Desired mix:</i> High proportion of fixed remuneration. <i>Justification:</i> Executives are trusted to act in the best interests of shareholders without the need to be coerced by incentives.	<i>Desired mix:</i> High proportion of variable remuneration. <i>Justification:</i> Agency, motivation and pay-for-performance principles.
8. Level of fixed, variable and total	Level is positioned at median relative to peers, although may be constrained by the rate of change in employees' salaries and wages. <i>Justification:</i> Fairness, human resources and market principles.	Level is positioned at lower-quartile/median/upper-quartile relative to peers with below-average/average/above-average firm performance. <i>Justification:</i> Pay-for-performance principle.

Fixed remuneration consists of salary, benefits, pension and other payments. To reward executives for their commitment and loyalty to the company, their fixed remuneration will not vary wildly (e.g. a steady increase over time), and recruitment, retention and severance payments will only be conditional on length of service. This is consistent with Corporate Logic because executives are assumed to act in the best interests of shareholders irrespective when there are no incentive schemes. However, executives do not want to be treated as the shareholders' slaves. They expect to be treated with respect and dignity and, therefore, expect to be remunerated at a level that is comparable to their peers (e.g. median), although this may be constrained by employees' general wage increases. This line of reasoning is inconsistent with Investor Logic. Jensen and Murphy (1990b) and Jensen et al. (2005) argue that under such arrangements executives will reduce the variability in earnings (i.e. reduce risk of corporate failure) in order to protect their jobs. Under Investor Logic, fixed remuneration is either reduced (e.g. base salaries are sufficient to cover executives' living expenses only) or converted into variable remuneration (e.g. a portion of base salaries may be 'at-risk', and recruitments and retention payments are conditional on performance targets being met).

Variable remuneration consists of short- and long-term incentive schemes. If executives act as stewards, then short- and long-term incentive schemes are not required (Davis et al., 1997; Grundei, 2008). Further, if executives, who are stewards, receive mainly variable remuneration, then they may feel that they are not trusted, lose intrinsic motivation and, possibly, turn into agents (Frey and Osterloh, 2005; Ghoshal, 2005). Thus, short- and long-term incentive schemes are inconsistent with Corporate Logic. However, profit-sharing may be consistent with Corporate Logic if it is seen as a profit sharing mechanism, not a control mechanism. This may also encourage cooperation between executives and employees (McGregor, 1960). On the other hand, Investor Logic assumes that executives act as agents, so both short- and long-term incentive schemes are required to control and direct them. It also assumes that executives make individual contributions to firm performance, which can be measured and valued (Jensen et al., 2005). Those who met their performance targets are deemed 'winners', whereas other who do not are deemed 'losers' and deserving of punishment. Further, variable remuneration arrangements must strike a balance between the near-future and distance-future (e.g. defer a portion of annual bonuses), so that executives are motivated to perform in the present without taking excessive risks (Jensen, 2005; Jensen et

al., 2005). Moreover, executives must own shares, so that they think and act like an owner and have ‘skin in the game’ (Jensen et al., 2005).⁴⁷

There are a wide variety of performance measures on which short- and long-term incentives may depend including internal measures that may be financial or non-financial and external measures such Economic Value AddedTM and total shareholder return. Note that Economic Value AddedTM is considered to be an external measure because the capital charge, which is deducted from profit, is based on the market’s (or debt- and equity-holders’) required rate of return (Stern et al., 1997). Irrespective of whether performance measures are tied to incentives, executives still have to measure firm performance. Under Corporate Logic, internal measures are preferred because executives are assumed to know how to allocate resources better than capital markets (Zajac and Westphal, 2004). A balance scorecard approach may be preferred because while it accounts for all aspects of firm performance, improving non-financial performance is believed to, ultimately, improve financial performance (Kaplan, 2009; Kaplan and Nagel, 2003).⁴⁸ On the other hand, external measures are preferred if executives are assumed to be agents that are capable of manipulating internal measures (Jensen et al., 2005). Investor Logic is consistent with short- and long-term incentives being dependent on external measures so that executives are programmed to maximise shareholder value over the long-term (Jensen, 2001; Stern et al., 1997).

Consistent with Corporate Logic, executives should receive mainly fixed remuneration and their total remuneration should be comparable to other executives in similar roles, although it may be constrained by their employees’ working conditions (Davis et al., 1997; Grundei, 2008; McGregor, 1960). Remunerating executives at the upper quartile relative to their peers is inconsistent with Corporate Logic, unless employees are also remunerated at the upper quartile. On the other hand, Investor Logic asserts that executive remuneration should vary with firm performance. If executives are paid at the upper-quartile relative to their peers in the absence of superior performance, then this is a sign of managerial power (Bebchuk and Fried, 2004; Jensen et al., 2005). However, prior research has rarely examined executive remuneration practices in the fine-grained detail that is outlined in Table 3.5. It is not known

⁴⁷ Under Political Logic, executives would be paid in cash, not shares or share options. If they were, then executives may prioritise shareholders’ interests ahead of the interests of non-shareholding stakeholders.

⁴⁸ A balanced scorecard approach is inconsistent with stakeholder value maximisation because shareholders are treated as the only end. Under Political Logic and Stakeholder Logic, executives would have to achieve performance targets that are not necessarily correlated, but related to the interests of each group of stakeholders.

if there are two or more groups of companies: For example, some with practices consistent with Corporate Logic and others with practices consistent with Investor Logic. Further research is required to understand how, if at all, Corporate Logic and Investor Logic influence how companies structure and justify their executive remuneration practices.

As outlined in Section 3.5, the process of making remuneration decisions is complex and dynamic. The remuneration committee's decisions will be swayed to varying degrees by executives, investors, remuneration consultants, and others (see Figure 3.1). Consistent with Corporate Logic, the remuneration committee will be a strategic advisor to executives and remuneration decisions will not be at arm's length (Davis et al., 1997). Similarly, remuneration consultants will provide advice to executives and the remuneration committee. The remuneration committee will not be overly concerned with codes because compliance with codes would impinge on their professional autonomy, but they would be concerned with shareholders' and, to a lesser extent, the public's perceptions of their decisions. On the other hand, Investor Logic implies that the remuneration committee must be comprised of independent directors and transact with executives at arm's length, and their remuneration consultants must not also provide advice to executives (Bebchuk and Fried, 2004; Jensen et al., 2005). Again, investors' opinions will be influential. However, further research is needed to ascertain how, if at all, Corporate Logic and Investor Logic influence how remuneration committees make and report remuneration decisions.

3.7. Conclusion

This chapter has reviewed prior qualitative research on remuneration committees. Drawing on multiple theories, prior studies have explained how remuneration committees make and justify remuneration decisions. Executive remuneration principles, practices and processes have become homogenous over time because of institutional pressures. As is typical among prior qualitative research, Main et al. (2008, p.235) concludes that "efforts by remuneration committees to conform may lead them away from implementing remuneration arrangements that are in the best interest of long term shareholder value." Using performance-based remuneration to motivate executives to maximise shareholder value is portrayed as rational, while remunerating to attract and retain executives and conforming to societal expectations is portrayed as irrational. Essentially, academics along with directors, investors and regulators have been seeking the Holy Grail of corporate governance. However, the Holy Grail does not exist (see Chapter 2). Instead, this chapter has shown that there are a myriad of ideas (e.g.

principles and practices) that are embedded in academic and business discourse, and remuneration committees draw on a range of ideas to make and justify remuneration decisions. It has been argued that Corporate Logic and Investor Logic form a significant part of this myriad of ideas.

This chapter also presents an institutional logics perspective on executive remuneration. While prior qualitative research on remuneration committees has not studied institutional logics per se, the empirical evidence implies that Corporate Logic and Investor Logic are deeply embedded in business discourse. Stakeholder Logic and Political Logic are not embedded in business discourse because directors and executives have a strong emphasis on shareholders' expectations, not stakeholders' expectations. Similarly, performance measures are related to profitability and are shareholder-oriented, rather than stakeholder-oriented. This may be as most prior research has studied Anglo-American countries, rather than Asian or European countries. There is an institutional battle between Corporate Logic and Investor Logic in Anglo-American countries that is being played out in the decision-making of remuneration committees. Further research is required to determine if Corporate Logic or Investor Logic is becoming dominant, Corporate Logic and Investor Logic are merging into a new logic, or multiple institutional logics can co-exist because stakeholders in organisational fields tolerate ambiguity. The latter may explain why remuneration committees have a significant degree of flexibility in making remuneration decisions.

Many gaps in prior research have been identified in this chapter. First, the diffusion of the remuneration principles has only been studied in US companies (Point and Tyson (2006) only studied 23 European companies). Further studies of diffusion may show how institutional logics have diffused in non-US countries. Second, prior qualitative research on research committees has focused on long-term incentive schemes. Further research is required to understand how a range of other remuneration practices are justified. Third, while Hermanson et al. (2011) highlight a tension between human resources/market principles and agency/pay-for-performance principles, it is not known how such tensions influence the design of executive remuneration practices. Further research is required on how remuneration committees prioritise remuneration principles and the resulting implications for remuneration practices. Fourth, remuneration committees are subject to multiple institutional pressures, but how different (e.g. competing, or relatively strong or weak) pressures influence their decision-making is not known. Fifth, the symbolic nature of remuneration principles, practices and

processes is not well understood. Bebchuk and Fried (2004) argue that symbolism is indicative of managerial power. But this may not be the case. Thus, the next chapter outlines how some of these gaps in knowledge were investigated.

Chapter 4: Research Methodology and Methods

4.1. Introduction

This chapter describes and justifies the research objective, questions, methodology and methods. The diffusion and institutionalisation of Corporate Logic and Investor Logic in the discourse on executive remuneration is studied. Bridging the macro-micro divide (Alvesson and Karreman, 2000), how Corporate Logic and Investor Logic shape this discourse at the levels of the organisation and organisational field are studied. At the level of the organisation, prior research suggests that institutional logics shape how boards of directors make decisions (e.g. Green et al., 2008). This relationship is examined in the context of executive remuneration. At the level of the organisational field, prior research suggests that organisations respond to institutional pressures and there can be a transition in institutional logics if institutional pressures are strong and homogenous (Scott, 2008; Thornton et al., 2005). For example, Point and Tyson (2006) postulated that codes shape companies' remuneration disclosure. Thus, consideration is given to the interplay between code issuers and companies, and how codes may act as coercive and normative pressures that influence how boards of directors and remuneration committees make and report remuneration decisions.

An interpretive methodology is adopted. The discourse on executive remuneration is multifaceted (e.g. principles, practices and processes) and diverse as this discourse is produced by many parties (e.g. code issuers and companies). There are two common approaches to studying this discourse in prior research: First, a few remuneration principles and practices are studied across a large sample of companies (e.g. Zajac and Westphal, 1995); and second, the talk of a small sample of directors and consultants is analysed (e.g. Bender, 2004). To bridge the macro-micro divide, multiple research methods are used to collect and scrutinise the discourse on executive remuneration. First, content analysis is used to study multiple remuneration principles in a large sample of codes and corporate annual reports. Second, discourse analysis is used to explore many aspects of the discourse on executive remuneration in a small sample of codes and corporate annual reports. Third, following interviews with executives, directors, consultants and code issuers, a discourse analysis is

used to understand how remuneration committees of NZ listed companies make and report remuneration decisions.

The remainder of the chapter is organised as follows. The research objective and questions are presented in Section 2. This includes a discussion of the gaps in prior literature that is reviewed in Chapters 2 and 3, and then justification of the three research questions that are addressed. Section 3 discusses the research's paradigmatic assumptions. Drawing on constructivism and interpretive structuralism, qualitative methods are adopted to tackle the research questions. Section 4 discusses how Research Question 1 is addressed. Remuneration principles and several other variables in a sample of codes and corporate annual reports are studied in order to show how Corporate Logic and Investor Logic have been diffused over time. Section 5 outlines that an exploratory discourse analysis is used to investigate Research Question 2. This research method is adopted so that the complexities and nuances of codes and corporate annual reports can be closely studied. Using data from interviews with executives, directors and others, how a qualitative research method is employed to address Research Question 3 is explained in Section 6. Concluding comments are made in Section 7.

4.2. Research Objective and Questions

This research investigates how ideas influence behaviour.⁴⁹ Individuals are assumed to be social actors who use discourse (or symbols) to create and interpret their social reality (Guba and Lincoln, 2005; Morgan and Smircich, 1980). There are many discourses – highly-ordered sets of ideas that have durable meaning – which influence how individuals, organisations and societies behave (Alvesson and Kärreman, 2000; Phillips and Hardy, 2002). The discourses examined are institutional logics of corporate governance: specifically, Corporate Logic and Investor Logic. Political Logic and Stakeholder Logic are not studied because these logics are theoretically underdeveloped and not likely to be present in the corporate governance discourses of Anglo-Saxon countries (see Chapter 2, Section 2.5). Given that Corporate Logic and Investor Logic have opposing implications for corporate governance, there are four possibilities: No Logic, Corporate Logic only, Investor Logic only or both Logics. The latter is possible because one or both Logics may be symbolic, there may be a high tolerance for ambiguity (due to weak institutional pressures), or these Logics may have merged to form a

⁴⁹ How people's emotions and instincts (e.g. evolved traits) influence their behaviour is not studied.

new logic. Consideration is given to these possibilities in the context of Anglo-Saxon countries.

Few studies have investigated how Corporate Logic and Investor Logic are embedded in the discourse on corporate governance.⁵⁰ There have been four significant studies. First, Zajac and Westphal (1995) showed that there was a transition in the 1980s from Corporate Logic to Investor Logic in terms of how US companies justified the adoption of long-term incentive plans. Second, Zajac and Westphal (2004) found further evidence of a transition as US investors' reacted increasingly favourably to the adoption stock repurchase plans, particularly when justified with the agency principle (Investor Logic). However, Zajac and Westphal (2004) argue that Investor Logic may have been weakened following the corporate scandals at Enron and WorldCom in the early 2000s. They contend that this may result in either another transition in institutional logics or an organisational field that is pluralistic, where multiple institutional logics are legitimate. This argument has yet to be studied. Further, the main limitation of Zajac and Westphal (1995, 2004) is that they only studied the proxy statements of US companies (i.e. public discourse). Long-term incentive plans and stock repurchase plans may be justified differently in the boardrooms (i.e. private discourse).

Third, Green et al. (2008) found that Corporate Logic and Investor Logic were embedded in the justifications of both takeovers and takeover defences that directors of US companies used in the boardroom from 1978 and 1998. This evidence casts doubt on Zajac and Westphal (1995, 2004) notion of a transition between institutional logics. It also illustrates that discourse is complex and dynamic: Directors' arguments were rarely consistent with only Corporate Logic or Investor Logic. Fourth, Lok (2010) found that while UK executives supported the Financial Reporting Council's (2010) *The UK Corporate Governance Code* in which Investor Logic is embedded, Corporate Logic was strongly embedded in their narratives on their role in corporate governance (i.e. their institutional identity). Again, this highlights that discourse is complex. Therefore, both private and public discourses are studied. This will enable differences in how Corporate Logic and Investor Logic are embedded in public and private discourse to be documented and explained. However, only the discourse on executive remuneration is studied in order to make this research practically manageable, although this is still a broad topic (see Chapter 3, Section 3.6).

⁵⁰ The discourse on executive remuneration is a sub-set of this discourse.

Table 4.1 categorises the discourse on corporate governance. There are two types of discourse: Public and private; and there are two types of entity: Companies and other parties (e.g. stakeholders of companies). All entities are both producers and consumers of talk and texts. This results in four quadrants and there are two sources of discourse within each quadrant: Talk and texts. Most prior research that is reviewed in Chapters 2 and 3 have studied discourse in only one quadrant. Prior research that has studied multiple quadrants includes Crombie et al. (2010), who studied the public discourse of US companies and US code issuers (e.g. regulators), and Lok (2010), who studied the public discourse of UK code issuers and the media, and the private discourse of UK executives and UK institutional investors. While research on a single quadrant can describe how institutional logics are embedded in discourse, research on multiple quadrants can explain institutional effects by revealing the connections (and disconnections) between quadrants. For example, Lok (2010) showed how UK executives shape their institutional identities to resist institutional pressures. This finding highlights the relationship between Quadrants 2 and 3. In this research, all four quadrants are studied, although Quadrant 4 receives much less attention because of limited access to some parties (see Section 4.6).

Table 4.1: Discourse on Corporate Governance

		Type of Discourse	
		Public	Private
Type of Entity	Companies (e.g. Executives and Directors)	Quadrant 1 <i>Talk:</i> Annual general meetings; and meetings with analysts, investors and media. <i>Texts:</i> Corporate annual reports, marketing, and press releases.	Quadrant 2 <i>Talk:</i> Board meetings, social meetings (e.g. with directors of other companies), and meetings with consultants. <i>Texts:</i> Board meeting papers
	Other Parties (e.g. Consultants, Investors, Media, Regulators and Professional Associations.)	Quadrant 3 <i>Talk:</i> Questions at annual general meetings and interviews in the media. <i>Texts:</i> Codes of practice; academic, business and news articles; and laws and regulations.	Quadrant 4 <i>Talk:</i> Political negotiation between stakeholders and either boards or other stakeholders. <i>Texts:</i> Consultants' reports, and letters to lobby boards or other stakeholders.

The present study investigates how codes influence how companies (i.e. boards and remuneration committees) make and report remuneration decisions. It builds on the following studies. In an exploratory study of 23 European companies, Point and Tyson (2006, p.827) found that, “most [corporate annual] reports contain sections which ‘cut and paste’ from codes... to show good corporate governance.” They argue that codes act as coercive and normative pressure on companies, and as an increasing proportion of companies adopt codes’

recommendations, mimetic pressure is also generated. Further, Aguilera and Cuervo-Cazurra's (2009) review of prior research highlighted that most companies do comply with codes' recommendations. In the UK, companies are required to comply with *The UK Corporate Governance Code* (formerly, the *Combined Code*) or explain why they do not comply, but there is little guidance provided on what constitutes an acceptable explanation of non-compliance. Unsurprisingly, UK companies provide uninformative explanations of non-compliance (Arcot et al., 2010; Pass, 2006). This shows that coercive and normative pressure can be resisted through decoupling or symbolic management practices.

Enrione et al. (2006) argue that corporate scandals motivate regulators and others to produce codes to quell public and investor outrage. Regulators and others also produce codes to enhance their own or their country's legitimacy (Aguilera and Cuervo-Cazurra, 2004, 2009; Zattoni and Cuomo, 2008). However, the effect of codes on how corporate governance is practiced and reported has rarely been studied. It is likely that there is a two-way relationship between issuers of codes (Quadrants 3 and 4) and companies (Quadrants 1 and 2). Codes' recommendations may be a reflection of directors' experience and perceptions of best practice. For example, UK code issuers are chaired by high-profile directors (Jones and Pollitt, 2004). Also, codes' recommendations may not require companies to make substantive changes, particularly if companies are successful in their lobbying of code issuers. Prior research has rarely investigated the political nature of code production. However, Jones and Pollitt (2004) highlight that code issuers are lobbied by many parties (e.g. government, investors, directors, professions, etc), but the relative influence of these parties on codes' recommendations has not been studied.

The research examines the diffusion of Corporate Logic and Investor Logic in discourse on executive remuneration and how both Logics influence remuneration decision-making and reporting. In doing so, discourse on executive remuneration in each of the quadrants and, to some extent, the relationships between the quadrants is studied. There are many types of talk and texts in each quadrant, but the research is limited to: Corporate annual reports in Quadrant 1; Directors' and executives' perceptions in Quadrant 2; Codes in Quadrant 3; and Code issuers' and remuneration consultants' perceptions in Quadrant 4. These types of talk and texts are chosen because they are the most significant with respect to understanding how Corporate Logic and Investor Logic are embedded in remuneration principle, practices and processes (see Chapter 3, Table 3.3 and Section 3.6). Further, codes and corporate annual

reports are chosen because these texts are publicly visible, and code issuers and companies express their institutional identities through these texts (Lok, 2010). However, public discourse may be symbolic or decoupled from private discourse. For example, Investor Logic may be embedded in remuneration disclosures, but Corporate Logic may be embedded in boardroom discussions of executive remuneration. The main limitation is that private discourse cannot easily be observed. Interviews with directors, executives, remuneration consultants and code issuers are used as a surrogate (this point is discussed further in Section 4.6).

Anglo-Saxon (or Commonwealth) countries are studied.⁵¹ The United Kingdom⁵² (UK) is chosen because of the local and international significance of UK codes. Enrione et al. (2006) argued that the UK's Cadbury Report (1992) had become the blueprint for other codes around the world. Cadbury has also had a significant influence on academic writing on corporate governance (Durisin and Puzon, 2009). Further, successive UK codes have been produced in response to corporate scandals (Chambers and Weight, 2008; Pollitt and Jones, 2004; Solomon, 2007). These codes emphasise board independence, board oversight of management (through auditing and internal controls) and incentives for executives (Chambers and Weight, 2008; Solomon, 2007). The UK Government also changed corporate law in response to corporate scandals: The Directors' Remuneration Report Regulations 2002 required listed companies to produce a detailed remuneration report and hold a non-binding shareholder vote on the remuneration report at the annual general meeting; and the Companies Act 2006 expanded directors' duties and specified that the corporate objective should be *enlightened* shareholder value (see Chapter 2, Section 2.5.5.3). This is arguable indicative of a shift away from Corporate Logic towards Investor Logic, but it may also be indicative of a merging of Corporate Logic and Investor Logic (Lok, 2010). Thus, UK regulatory and corporate behaviour from the late-1980s onwards is an opportune site for research on Corporate Logic and Investor Logic.

Australia (AU) is chosen because of the similarity between AU and the UK (Hill, 2005, 2008). Corporate scandals (particularly, HIH Insurance and One.Tel in 2001) have motivated

⁵¹ America is not selected because it is the site for most prior research on institutional logics of corporate governance (see Chapter 2, Section 2.5). Thus, there is less to be learnt from further study of America.

⁵² The UK is not a country, but a union of countries including England, Northern Ireland, Scotland and Wales. However, the UK is treated as a country because of the close economic and political ties between countries in the union and the London Stock Exchange is the main stock exchange for all countries in the union.

the production of codes and changes to corporate laws: The Corporations Act 2001 requires companies to produce a remuneration report and the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 expanded remuneration disclosure requirements and requires listed companies to hold a non-binding shareholder vote on the remuneration report; and the Australian Stock Exchange Corporate Governance Council (ASXCGC) first issued a code in 2003. ASXCGC's code replicated many aspects of the UK's Financial Reporting Council's *Combined Code*. For example, listed companies have to comply or explain why they do not comply. Further, both the UK and AU have associations of institutional investors that produce codes (e.g. UK's Association of British Insurers and AU's Investment and Financial Services Association). This illustrates that the UK and AU experienced a similar sequence of events: Corporate scandals are followed by changes in corporate law and the issuing of codes. This is indicative of a shift away from Corporate Logic towards Investor Logic. However, while the UK's first official code was introduced in 1992, AU's first official code was introduced in 2003. Thus, AU regulatory and corporate behaviour from the late-1990s onwards is an opportune site for research on Corporate Logic and Investor Logic.

New Zealand (NZ) is chosen because it is markedly different to AU and the UK, despite historically close economic and cultural ties. The Companies Act 1993 has few disclosure requirements: Listed companies have to disclose directors' remuneration and the number of employees who are paid \$100,000 or more in \$10,000 bands. The NZX's (NZ Stock Exchange's) listing rules (1994; 1999; 2003; 2004; 2009) do not require listed companies to produce a remuneration report. The Securities Commission's code (2004b) is voluntary. Thus, NZ's regulatory requirements are significantly lower than those in AU and the UK. A significant explanatory factor is that there have been few corporate scandals in NZ that have put the public spotlight on executive remuneration in listed companies.⁵³ There is also no institutional investors' association in NZ that has issued a code, although the NZ Shareholders' Association issued a discussion document on CEO pay in 2004. Thus, in the absence of shareholder-centric reforms (e.g. voting on remuneration reports), it is expected that Corporate Logic will be embedded in the NZ discourse on executive remuneration to a greater extent than in AU and UK discourse. Therefore, NZ's inclusion serves as a case study

⁵³ There have been corporate scandals in NZ, but, unlike in AU and the UK, NZ corporate scandals have not resulted in any official inquiries, changes in remuneration disclosure requirements or codes being produced. NZ's institutional setting with respect to executive remuneration is discussed further in Chapter 7, Section 7.2.

of how Corporate Logic and Investor Logic influence remuneration decisions and reporting in the near-absence of coercive and normative pressures.

A subjective approach to the study of institutional logics is taken. Most prior research on institutional logics has had a positivist methodology, where the effects of institutional logics on corporate governance practices (including executive remuneration) and firm performance have been studied (e.g. Shipilov et al., 2010; Westphal and Zajac, 1998; Zajac and Westphal, 1995). Some prior research on institutional logics has had an interpretive methodology, where researchers have studied how institutional logics construct various organisational actors' social realities (e.g. Green et al., 2008; Lok, 2010). Institutional logics are considered to be objective by the former and inter-subjective by the latter. It is argued that institutional logics are inter-subjective because institutional logics are constructed by both the producer and consumer of discourse (i.e. institutional logics exist in their collective minds). Given the inter-subjective nature of institutional logics, their definition and effects are not necessarily stable between institutional settings and over time. Therefore, to study institutional logics requires consideration of how discourse is produced and consumed, so that the researcher accounts for how institutional settings (e.g. culture) may alter how organisational actors construct their social realities (Phillips and Hardy, 2002; Phillips et al., 2004).

The embedding of Corporate Logic and Investor Logic in the discourse on executive remuneration in the UK, AU and NZ is also studied. Most prior research on institutional logics has had a micro or organisational perspective and has examined the antecedents and effects of US companies adopting institutional logics (e.g. Westphal and Zajac, 1998, 2001; Zajac and Westphal, 1995; 2004). In contrast, prior research on institutional logics has rarely taken a macro or organisational field perspective. In an exploratory study of 23 European companies, Point and Tyson (2006) found that coercive, normative and mimetic pressures influence corporate reporting. Similarly, Crombie et al. (2010) found that there had been institutional isomorphism in the US because both codes and proxy statements had a shared language for justifying executive remuneration, which had become increasingly homogenous over time. Therefore, the present study adds knowledge to the institutional logics perspective by investigating the following research question:⁵⁴

⁵⁴ Originally, this research also sought to investigate the process of institutionalisation. This is embodied in the following research question: By what process have Corporate Logic and Investor Logic become embedded in AU, NZ and UK organisational texts? It was expected that jolts (e.g. corporate scandals) result in public

1. To what extent have Corporate Logic and Investor Logic become embedded in AU, NZ and UK organisational texts with respect to executive remuneration?

The main limitation of studying a large sample of organisational texts is that few features of those texts can be studied. Prior research on institutional logics has used the human resources principle as a measure of Corporate Logic and the agency principle as a measure of Investor Logic (Westphal and Zajac, 1998; Zajac and Westphal, 1995). This research method is adopted in order to address Research Question 1 (see Section 4.4.3). However, this reductionist approach ignores the complexities and nuances of organisational texts. This limitation is overcome by examining multiple features of a small sample of organisational texts. In doing so, institutional logics that are legitimate in AU, NZ and the UK are studied. It is expected that there will be multiple and, possibly, competing institutional logics that are embedded in the discourse on executive remuneration in any given organisational text (Zajac and Westphal, 2004). For example, St-Onge et al. (2001) found that Canadian executives used multiple ideas (or theories) to justify the adoption of executive share option plans. Therefore, the following research question is explored:

2. How, if at all, have Corporate Logic and Investor Logic influenced how executive remuneration has been conceptualised in AU, NZ and UK organisational texts?

While Research Questions 1 and 2 examine public discourse on executive remuneration, Research Question 3 examines private discourse on executive remuneration. Most prior qualitative research on remuneration committees has studied UK companies (see Chapter 3, Table 3.3). Due to my geographic location, gaining access to NZ directors, executives and

outrage, which result in new codes and regulations being produced, and this results in companies adopting codes' recommendations (Enrione et al., 2006). This process may result in institutional change if the institutional logic(s) that are embedded in new codes and regulations are different to those embedded in the existing discourse of companies. This research question was not able to be addressed for three reasons. First, obtaining pre-2000 corporate annual reports is difficult. This means that it is near-impossible to pinpoint which companies first adopted the remuneration principles in their annual reports and then trace the diffusion of the remuneration principles over time (note: remuneration principles are used as indicators of Corporate Logic and Investor Logic as per Section 4.4.3; also see Chapter 3, Table 3.2). Second, it is likely that directors use the remuneration principles to make remuneration decisions, but do not necessarily report what remuneration principles they use (as pre-2000 corporate annual reports contain limited disclosure on executive remuneration). Third, how code issuers produce codes cannot be easily studied. For example, code issuers receive hundreds of submissions from interested parties (e.g. directors and investors), but how they evaluate and weight this evidence is unknown. Nonetheless, the process of institutionalisation is discussed in Chapter 8.

others is easier than organisational actors from other countries. Studying NZ companies and code issuers is also opportune because NZ has a markedly different institutional setting to the UK and other countries (see above). Further, while prior qualitative research on remuneration committees has used multiple theories to interpret their findings (particularly agency and institutional theories), an institutional logics perspective has not been adopted by any of these prior studies (see Chapter 3, Section 3.2). As discussed in Chapter 3, there are tensions between Corporate Logic and Investor Logic that have been indirectly highlighted by these prior studies. For example, Main (1993) and Main et al. (2008) showed that remuneration committees use the market principle to manage the conflicting demands of executives and shareholders. By adopting an institutional logics perspective, these tensions are directly investigated. Therefore, the following research question is examined:

3. How, if at all, do Corporate Logic and Investor Logic influence the thinking and decision-making of NZ organisational actors with respect to executive remuneration?

4.3. Research Methodology

The research methodology that has been adopted draws on constructivism (Denzin and Lincoln, 1994) and interpretive structuralism (Phillips and Hardy, 2002; Phillips and Di Domenico, 2009). This is a unique research methodology compared to prior research on executive remuneration that is reviewed in Chapters 2 and 3. Most common is a post-positivist research methodology, where empirical testing of hypotheses results in statistical relationships between variables that are claimed to mirror reality (Lee, 1991; Saunders et al., 2009). In contrast, institutional logics are argued to be socially constructed and inter-subjective: Institutional logics only exist in the collective minds of individuals. This means that knowledge about institutional logics is local and temporary. However, Kakkuri-Knuuttila et al. (2008) remind interpretive researchers that subjective constructs (e.g. organisational culture) are brought into being through objective processes (e.g. Government intervention) and have objective effects (e.g. changes in accounting systems). They argue that interpretive research is a mix of subjective and objective approaches to inquiry. Drawing on their naturalistic methodology, the findings show (i.e. causal reasoning) how institutional logics affect remuneration decisions and reporting and, to some degree, how institutional logics are diffused and institutionalised.

Table 4.2 presents the paradigmatic assumptions of the research. The first column lists eight different assumptions. These are defined in the second column. A range of possible assumptions (or choices) are listed in the third column. The choices made in this research are listed in the fourth column. Essentially, a subjective approach to inquiry has been taken because the research investigates on how ideas (i.e. institutional logics) influence behaviour (i.e. remuneration decisions and reporting). People are conceptualised as social actors, who create and use symbols (discourse) to construct their social realities. While the existence of a physical reality is not denied, the findings are constructed and represent the researcher's view of social reality. Essentially, the findings represent an interpretation or reconstruction of how the social realities of AU, NZ and UK organisations have changed over time. While the traditional scientific method is not followed (e.g. hypotheses are not tested), the research is scientific in nature because descriptions and explanations are sought (Stablein, 1988). The findings are interpreted through the lens of an institutional logics perspective (Thornton et al., 2005), discursive institutionalism (Schmidt, 2010) and an institutional neo-institutional sociology (DiMaggio and Powell, 1983), but this interpretation is not definitive. Given these paradigmatic assumptions, qualitative research methods are employed to investigate the research questions (see Sections 4.4, 4.5 and 4.6).⁵⁵

⁵⁵ Content analysis is used to investigate Research Question 1 (see Section 4.4). While Bryman and Bell (2003) classify content analysis as a quantitative method (as words are counted and, hence, quantified), Silverman (2006) argues that content analysis can be used by qualitative researchers if the findings are contextualised and not treated as objective. Silverman's advice was followed.

Table 4.2: Paradigmatic Assumptions of This Research

Assumptions	Definition	Choices	This Research
<i>Approaches to inquiry</i>	An approach to inquiry is the way in which the researcher thinks about research (Lundberg and Young, 2005)	Objective – Subjective (Morgan and Smircich, 1980)	Subjective
<i>Human nature</i>	Human nature is the qualities and behaviours that humans have in common (Lundberg and Young, 2005)	Responding mechanisms – Transcendental beings (Morgan and Smircich, 1980)	Social actors
<i>Ontology</i>	Ontology is the theory of the nature of reality (Lundberg and Young, 2005)	Concrete structure – Projection of human imagination (Morgan and Smircich, 1980)	Symbolic discourse
<i>Epistemology</i>	Epistemology is the “theory of knowledge especially with regards to its methods and validation” (Deverson and Kennedy, 2005 p.360)	Non-falsified hypotheses / Probably true findings, or Reconstructions / Created findings (Denzin and Lincoln, 1994)	Reconstructions / Created findings
<i>Ideology</i>	Ideology is “the system of ideas at the basis of an [academic] theory” (Deverson and Kennedy, 2005, p.540)	Scientistic; humanistic; managerial; or critical (Stablein, 1988)	Scientistic
<i>Schools of thought</i>	Schools of thought are “a theoretical-methodological community” (Lundberg and Young, 2005, p.152)	Rationality / Simon; Integration / Parsons; Market / Williamson; Power / Weber; Knowledge / Foucault; Justice / Habermas (Reed, 1996)	Neo-institutional sociology / DiMaggio, Meyer, Powell and Scott
<i>Paradigm</i>	“A paradigm is a fundamental image of the subject matter within a science...” (Ritzer, 1980, p.189)	Functionalist, Interpretive or Radical (Burrell and Morgan, 1979); Modernism or Post-modernism (Denzin and Lincoln, 1994)	Interpretive and constructivism
<i>Methodology</i>	Methodology is “a body of methods used in a particular branch of [science]” (Deverson and Kennedy, 2005, p.708)	Quantitative – Qualitative (Morgan and Smircich, 1980)	Qualitative

Researchers that have studied institutional theory and/or corporate governance have employed a variety of research methods (David and Bitektine, 2009; Durisin and Puzone, 2009; Fiss, 2008). There are two common research methods amongst prior research that were reviewed in Chapters 2 and 3: Archival research (e.g. data are collected from corporate annual reports) and case/field studies (e.g. data are collected from interviews with directors and executives). In both cases, researchers often use content analysis to make sense of the data. However, Nelson Phillips and his colleagues have criticised this approach because how institutions are brought into being has been ignored in favour of studying the effects of institutions on organisations and organisational fields (Phillips, 2003; Phillips et al., 2004, 2006; Phillips and Di Domenico, 2009). Instead, they argue that discourse analysis can contribute to an understanding of how institutions arise because of the central role texts have in constructing and reinforcing institutions. To summarise, researchers can gain an understanding of a few

variables in a large sample of texts using content analysis, or many variables (institutional and organisational phenomena) in a small sample of texts using discourse analysis (Bryman and Bell, 2003; Silverman, 2006). Given the research questions, both content and discourse analysis are employed to gain an understanding of Corporate Logic and Investor Logic.

4.4. Research Question 1

Research Question 1 is concerned with the extent to which Corporate Logic and Investor Logic are embedded in organisational texts. This research question was inspired by Zajac and Westphal (1995; 2004) and St-Onge et al. (2001): They showed that companies use many different ideas to justify the adoption of long-term incentive plans. Also, this research question was developed from a pilot study of a range of codes and corporate annual reports (see Section 4.4.1). As Research Question 1 asks ‘to what extent’, a large sample of organisational texts are sampled (see Section 4.4.2). To detect the presence of Corporate Logic and Investor Logic in these texts, the remuneration principles found in codes and corporate annual reports are studied (see Section 4.4.3). While the data collected are analysed using statistical techniques (see Section 4.4.4), qualitative examples from the sample of organisational texts are used to ground the interpretation of the statistics.

4.4.1. A Pilot Study

The pilot study’s objective was to identify remuneration principles that are common to codes and corporate annual reports.⁵⁶ A multi-staged pilot study was conducted to fulfil this objective. First, many codes and corporate annual reports were read to identify as many remuneration principles as possible. During this process, detailed notes were made including quotes from the texts that illustrated the various remuneration principles. My supervisors and I discussed these notes at length, resulting in a condensed list of remuneration principles. Second, a range of texts (two codes and ten corporate annual reports from AU, NZ and UK, published between 1998 and 2007) were purposively selected based on the public visibility (or prominence) of the code issuers and companies.⁵⁷ The presence of the remuneration principles in these texts was ascertained through multiple, close readings of the texts. This process resulted in a coding procedure for detecting the incidence of remuneration principles.

⁵⁶ This is analogous to purposive (heterogeneous) sampling. The purpose of this is “to collect data to describe and explain the key themes that can be observed” (Saunders et al., 2009, p.239). Similarly, this is analogous to theoretical sampling in grounded theory (Goulding, 2009).

⁵⁷ Journal articles and textbooks on corporate governance were used to identify which code issuers were most public visible (or prominent). Further, the ten companies selected included the largest companies by market capitalisation and companies that had their executive remuneration practice scrutinised in the media.

Again, my supervisors and I discussed the preliminary data. These discussions solidified the choice of remuneration principles to be studied and texts to be sampled (see Sections 4.4.2 and 4.4.3). Finally, other features of the texts were also noted (see Sections 4.4.3 and 4.5.2).

4.4.2. Sample of Texts

Two types of organisational texts are sampled: Codes and corporate annual reports. The sample of codes is discussed first. Three types of codes are sampled: Official reports, binding codes and non-binding codes. Note that official reports are often the forerunner of codes. There are many organisations that issue (or produce) codes including stock exchanges, stock exchange regulators, directors' associations and investors' association. Binding codes represent coercive pressure, while non-binding codes represent normative pressure. For example, Main (2006) found that in the UK non-binding codes influence how companies made remuneration decisions. Initially, all corporate governance documents that were produced to influence companies were collected from websites and university libraries. This initial sample included 116 texts including 60 from the UK, 30 from AU and 26 from NZ, which were issued between 1985 and 2010. Texts that did not include recommendations on executive remuneration were excluded. Non-codes were also excluded.⁵⁸ The final sample includes 68 texts including 28 from the UK, 24 from AU and 16 from NZ, which were issued between 1992 and 2010.

Table 4.3 presents the sample of codes in chronological order.⁵⁹ The codes are produced by a range of organisations including stock exchanges, stock exchange regulators, directors' associations and investors' associations. Many codes are endorsed by multiple organisations

⁵⁸ Non-codes include laws, discussion documents, consultation documents and submission documents. First, laws are excluded because laws do not include specific recommendations on how and how much executives should be remunerated; laws include recommendations on disclosure. Second, discussion documents are produced by directors' associations, accountancy firms and others to provoke debate on contemporary issues. Discussion documents are excluded because these texts rarely include specific recommendations on executive remuneration. Third, consultation documents are produced by code issuers and are the forerunner to official reports and codes. Code issuers invite submissions from the public on their consultation documents, discuss the submissions and then produce official reports and codes. Consultation documents are excluded because these texts do not include specific recommendations on executive remuneration and are superseded by the resulting official reports and codes. Fourth, submission documents are produced by a wide range of individuals and organisations in response to consultation documents. Only a small fraction of all submission documents were collected. Submission documents are a rich source of data. For example, there were 141 submissions on David Walker's (2009) *A Review of Corporate Governance in UK banks and Other Financial Industry Entities*. Submission documents are excluded because these texts are not likely to have any influence on companies.

⁵⁹ Table 4.3 includes 69 texts. However, there is one code included in the sample was not able to be collected: Australian Council of Super Investor's (2003) *Governance Guidelines*.

and some codes are produced by multiple organisations. There are multiple editions of many codes (e.g. the UK's *Combined Code* has five editions).⁶⁰ Further, stock exchanges' listing rules are mainly excluded. The UK's London Stock Exchange's listing rules are not included in the sample because the codes included in the Cadbury and Greenbury reports were annexed by the London Stock Exchange. Companies had to comply with these codes or explain why they do not comply. Inclusion would have resulted in double counting of the codes. Similarly, Australian Stock Exchange's listing rules are not included in the sample because the ASXCGC's (2003, 2007, 2010) codes were part of the listing rules. In contrast, New Zealand Stock Exchange's listing rules are included because its provisions related to executive remuneration are not included in a separate code.

⁶⁰ Appendix E details of authorship and stated reasons for producing the codes. This information is not relevant to Research Question 1, but is relevant to understanding the process of institutionalisation, which is discussed in Chapter 8.

Table 4.3: Sample of Codes and Official Reports

Year	United Kingdom	Australia	New Zealand
1991		R: Bosch	
1992	R: Cadbury		
1993	C-NB: ABI (Association of British Insurers)	R: Bosch R: Hilmer	
1994	C-NB: UKSA (UK Shareholders' Association)		C-B: NZSE (New Zealand Stock Exchange)
1995	R: Greenbury	R: Bosch C-NB: AIMA (Australian Investment Managers' Association)	
1996	C-NB: ABI		
1997		C-NB: IFSA (Investment and Financial Services Association; formerly, AIMA)	
1998	R: Hampel C-B: London Stock Exchange	R: Hilmer	
1999	C-NB: ABI C-NB: ABI C-NB: Hermes	C-NB: IFSA	C-B: NZSE
2000		C-NB: AICD (Australian Institute of Company Directors), IFSA and ASA (Australian Shareholders' Association)	
2001	C-NB: AUTIF (Association of Unit Trusts and Investment Funds)		
2002	C-NB: ABI C-NB: Hermes C-NB: Institutional Shareholders' Committee	C-NB: IFSA	
2003	R: Higgs R: Trade and Industry Commission C-B: FRC (Financial Reporting Council) and FSA (Financial Services Authority) C-NB: Hermes	C-B: ASXCGC (Australian Stock Exchange Corporate Governance Council) C-NB: AICD C-NB: ACSI (Australian Council of Super Investors)	R: NZICA (NZ Institute of Chartered Accountants) C-B: NZX (New Zealand Exchange; formerly, NZSE) C-NB: Minter Ellison (Minter Ellison Rudd Watts)
2004		C-NB: ASA C-NB: ASA C-NB: IFSA	R: Securities Commission R: NZSA (NZ Shareholders' Association) C-B: NZX
2005	C-NB: ABI		C-B: NZX C-B: Institute of Directors in NZ
2006	C-B: FRC C-NB: Hermes		C-NB: Securities Commission
2007	C-NB: ABI C-NB: ICSA C-NB: NAPF	C-B: ASXCGC C-NB: AICD and ASA C-NB: IFSA C-NB: IFSA	
2008	C-B: FRC C-NB: Hermes		
2009	R: Walker	R: Productivity Commission C-B: APRA (Australian Prudential Regulation Authority) C-NB: ACSI C-NB: IFSA	C-B: NZX C-NB: Minter Ellison
2010	C-B: FRC	C-B: ASXCGC	C-B: NZX C-B: Institute of Directors in NZ C-NB: Securities Commission
Note: Full references for the sampled codes can be found in Appendix A. Key: R = Official report; C-NB = Non-binding code; C-B: Binding code.			

The sample of companies was purposefully selected. It includes the 50 largest companies in terms of market capitalisation that were listed on the Australian Stock Exchange (ASX) and the New Zealand Stock Exchange (NZX) on 31 December 1998 and 2007, as well as the London Stock Exchange (LSE; also known as FTSE) on 31 December 1989, 1998 and 2007.⁶¹ The largest 50 companies were selected because corporate governance as a subject focuses on large publicly listed companies that have widely held shareholdings. Also, the largest 50 companies are the most publicly visible and the most likely to voluntarily disclose information on executive remuneration.⁶² Thus, the largest 50 companies are an opportune sample in the study of remuneration disclosure. Further, 1989, 1998 and 2007 are selected in order to study the effect of the corporate scandals and the 2001-2002 Dot-Com Bubble on the embedding of Corporate Logic and Investor Logic in remuneration disclosure.⁶³ More years are not selected because it is both costly and time-consuming to collect older corporate annual reports that are not found on companies' websites and it is time-consuming to manually collect data from corporate annual reports.⁶⁴

Table 4.4 presents the samples of corporate annual reports. The annual reports for the 50 largest companies across three countries and two-three time periods were gathered.⁶⁵ In total, there are 414 corporate annual reports from 221 publicly listed companies. There are two samples: Top 50 and Continuous.⁶⁶ Many corporate annual reports are included in both samples. First, the Top 50 sample was selected to show how remuneration reporting had changed over time amongst the largest 50 companies. Second, the Continuous sample was selected to show how remuneration reporting had changed over time amongst the same companies (e.g. UK's Cadbury Schweppes Plc in 1989, 1998 and 2007). There are more companies in the 1989/1998 Continuous sample than the 2007 Continuous sample because

⁶¹ Market capitalisation information was obtained from newspapers (*The Times*, London; *The Australian*; *National Business Review*, New Zealand) and the websites of stock exchanges (www.ftse.co.uk; www.asx.com; www.nzx.com).

⁶² Mandatory disclosure on executive remuneration beyond listing the number of employees' earning above a specified amount is a recent development in most countries. As aforementioned, there is minimal mandatory disclosure for NZ companies.

⁶³ As aforementioned (see Chapter 2, Section 2.2.4 and Chapter 4, Section 4.2), corporate scandals and financial crises have resulted in new laws and codes being produced. Investor Logic appears to be embedded in the discourse of these texts, e.g. shareholders' voting on remuneration reports.

⁶⁴ In particular, AU and NZ corporate annual reports from pre-1998 are not collected because a preliminary reading of a number of older corporate annual reports revealed that these texts did not include any narrative disclosure on executive remuneration.

⁶⁵ Electronic or hard copies were obtained from the companies' websites, Global Reports (www.global-reports.com), NZX Deep Archive Service and university libraries (including University of Canterbury, University of Sydney and Strathclyde University).

⁶⁶ The lists of companies included in the samples can be found in Appendix B.

many companies merged between periods and all of the pre-merger companies are included in the 1989/1998 Continuous sample. For example, Astra AB (Sweden) merged with Zeneca Plc (UK) in 1999 to form AstraZeneca Plc (UK). Not collected are the 2007 corporate annual reports for companies that were in the 1989/1998 Top 50 sample, but were not in the 2007 Top 50 sample.

Table 4.4: Sample of Corporate Annual Reports

Year	United Kingdom			Australia		New Zealand		Total number of annual reports
	Top 50 ¹	Continuous (1989) ²	Continuous (1998) ³	Top 50 ¹	Continuous ³	Top 50 ¹	Continuous ³	
1989	50	48(21) ⁴	-	-	-	-	-	71
1998	50	-	65(25)	50(49)	48(14)	50(44)	45(18)	200
2007	50	46(0)	49(0)	50(48)	46(0)	50(45)	40(0)	143
Total	150	94(21)	104(25)	100(97)	94(14)	100(89)	90(18)	414 ⁵
Notes								
1 The Top 50 refers to the largest 50 publicly listed companies by market capitalisation on the last trading day of the year on the London Stock Exchange (UK), Australian Stock Exchange (ASX) and New Zealand Stock Exchange (NZX).								
2 Continuous (1989) refers to the matched sample. Annual reports were collected for only those companies that were continuously listed from 1989 to 2007 and were in the Top 50 in 2007. For those companies that were a product of a merger, annual reports from pre-merger publicly listed companies were also collected.								
3 Continuous (1998) in the UK and Continuous in AU and NZ refers to matched samples. Annual reports were collected for only those companies that were continuously listed from 1998 to 2007 and were in the Top 50 in 2007. For those companies that were a product of a merger, annual reports from pre-merger publicly listed companies were also collected.								
4 The bracketed number refers to the number of corporate annual reports that are not included in the Top 50.								
5 All corporate annual reports included in the sample were collected. Thus, there is no missing data. Appendix B contains a list of the companies included in the sample.								

4.4.3. Variables

Remuneration principles are used as proxies for Corporate Logic and Investor Logic. The fairness, human resources, market principles are consistent with Corporate Logic, whereas the agency, motivation and pay-for-performance principles are consistent with Investor Logic (see Chapter 3, Table 3.2).⁶⁷ Corporate Logic assumes that executives are trustworthy and will act in the best interests of shareholders in the absence of controls such as monetary incentives. This does not imply that executives will work without pay. Instead, executives have to be remunerated fairly relative to other employees (fairness principle) and other executives (market principle) in order to be attracted to and retained in a company (human resources principle). In contrast, Investor Logic assumes that executives are opportunistic and will not act in the best interests of shareholders without controls. This implies that the effort

⁶⁷ Conformance and responsibility principles are not studied because these principles are consistent with both Logics (i.e. these principles do not discriminate between institutional logics).

of executives will be sub-optimal or misdirected in the absence of performance-based remuneration (motivation and pay-for-performance principles) and equity-based incentives are required to align executives' interests with those of shareholders (agency principle).⁶⁸ Thus, these six remuneration principles are studied because they are predominantly consistent with either Corporate Logic or Investor Logic, not both.⁶⁹

Table 4.5 presents the coding procedure for the six remuneration principles including definitions, keywords and examples.⁷⁰ For all of the sampled texts, the presence or absence of the six remuneration principles was recorded. To be recorded as present, the relevant text in the codes and corporate annual reports had to be (1) related to the most senior executive (i.e. Executive Chairman, Managing Director or Chief Executive Officer),⁷¹ rather than non-executive directors, other executives or employees; and (2) worded in a manner consistent with the spirit of the remuneration principle, while including at least one of the keywords.⁷² Further, the entire text was scanned to detect to the presence or absence of the remuneration principles. Scanning was a two-stage process. First, selected sections of the sampled texts were read: Normally, codes have one section on remuneration and corporate annual reports have a remuneration report. Second, the remainder of the sampled texts were scanned for other passages on remuneration. For example, remuneration is occasionally discussed in the Chairman's statement in corporate annual reports. This scanning involved electronic keyword searches for electronic documents (e.g. Portable Document Format files)⁷³ and visual searches (e.g. skim reading) for hardcopy documents.

⁶⁸ Also, the level of executive remuneration is set relative to each executive's contribution to firm performance (the pay-for-performance principle). This form of meritocracy is consistent with Investor Logic.

⁶⁹ There is theoretical and empirical support for associating the fairness, human resources and market principles with Corporate Logic and the agency, motivation and pay-for-performance principles with Investor Logic: Davis et al.'s (1997) and Grundei's (2008) comparisons of stewardship theory (or Corporate Logic) and agency theory (or Investor Logic); Zajac and Westphal's (1995; 2004) research on Corporate Logic and Investor Logic; St-Onge et al.'s (2001) research on the ideas/theories used to justify the adoption of stock option plans; and prior qualitative research on remuneration committees (see Chapter 3, Section 3.3).

⁷⁰ Further examples are contained in Appendix C.

⁷¹ The pilot study revealed that some companies have different remuneration principles for different positions (e.g. there are different remuneration policies for the CEO and other executives). To be consistent in the comparison between companies, only remuneration policies that related to the most senior executive (e.g. CEO) were studied. Also, prior research focuses on CEOs, rather than all executives. However, this is a limitation as the use of Corporate Logic and Investor Logic could vary with different positions in companies.

⁷² There were many instances where codes or corporate annual reports included phrases that were similar to a particular remuneration principle, but did not use the keywords. These were recorded as a possible incidence of a remuneration principle. Upon reviewing these instances, some revisions of the definitions and keywords occurred, which enabled these instances to be definitively coded as either present or absent.

⁷³ When keywords were found in electronic searches of texts, the surrounding sentences were read to detect the presence of the remuneration principles.

Table 4.5: Coding Procedure for Remuneration Principles

Remuneration Principles	Definition and Keywords	Examples from Corporate Annual Reports and Codes
Agency	<p><i>Definition:</i> Remuneration practices should be designed to align the interests of the CEO with those of the shareholders.</p> <p><i>Keywords:</i> (1) Align, Alignment, Link or Share; (2) Interests or Rewards, (3) CEO, Executive or Director; and (4) Shareholders or Unitholders</p>	<p><i>Corporate Annual Report:</i> “The Board believes that the Scheme fulfils an important role in creating an alignment of interests between the Company’s key executives and its shareholders, through incentivising those key executives to grow the value of the Company.” (Mainfreight, NZ, 2007, p.63)</p> <p><i>Code:</i> “A key concern should be to ensure, through the remuneration system, that Directors share the interest of shareholders in making the company successful.” (Greenbury, UK, 1995, para.6.16)</p>
Fairness	<p><i>Definition:</i> The CEO’s remuneration or remuneration practices should be fair.</p> <p><i>Keywords:</i> Equitable, Fair, Reasonable, or Not Excessive</p>	<p><i>Corporate Annual Report:</i> “For 2007, the Committee is looking at ways of operating the existing remuneration framework in line with the following key principles: ...and • reward performance on a fair and equitable basis.” (Sainsbury, UK, 2007, p.37)</p> <p><i>Code:</i> “Shareholders require that the remuneration of directors should be both fair and competitive.” (Cadbury, UK, 1992, p.31)</p>
Human Resources	<p><i>Definition:</i> The level of CEO remuneration should be sufficient to, or the remuneration practices should be designed to: attract and retain a skilled and experienced individual.</p> <p><i>Keywords:</i> Attract, Retain, Select, Secure or Recruit</p>	<p><i>Corporate Annual Report:</i> “The Scheme also assists the Company to attract, motivate and retain key executives in an environment where such executives are in high demand.” (Mainfreight, NZ, 2007, p.63)</p> <p><i>Code:</i> “Boards and remuneration committees must have flexibility to offer the packages required to attract, retain and motivate people of the calibre and experience they need to make their companies successful” (Greenbury, UK, 1995, para.6.5)</p>
Market	<p><i>Definition:</i> The CEO’s remuneration should be competitive or comparable to their peers.</p> <p><i>Keywords:</i> Competitive, Market, Comparable or Peers</p>	<p><i>Corporate Annual Report:</i> “Executive Directors’ salaries are reviewed each year by the Committee and adjusted to reflect the performance and the competitiveness of salaries relative to the market.” (British Aerospace, UK, 1998, p.34)</p> <p><i>Code:</i> “...remuneration committees need to consider carefully a range of issues such as... the positioning of their company relative to other companies” (Greenbury, UK, 1995, p.35)</p>
Motivation	<p><i>Definition:</i> The company’s remuneration policy or practices should be designed to motivate the CEO.</p> <p><i>Keywords:</i> Motivate, Encourage or Incentivise</p>	<p><i>Corporate Annual Report:</i> “The remuneration policy of the Company aims to: ... • motivate directors to achieve challenging performance levels” (Associated British Food, UK, 2007, p.40)</p> <p><i>Code:</i> “Remuneration for directors should be set at levels designed to attract, motivate and retain the best people available.” (New Zealand Institute of Directors, NZ, 2005, para.3.13)</p>
Pay-for-Performance	<p><i>Definition:</i> The CEO’s remuneration should be related to corporate performance.</p> <p><i>Keywords:</i> (1) Compensation, Incentives, Pay or Remuneration; (2) Firm, Company or Corporate, Performance; (3) At Risk, Linked, Related, or Variable</p>	<p><i>Corporate Annual Report:</i> “Options issued under the Plan are linked to the longer term performance of the Company and are only exercisable following the satisfaction of performance hurdles that are designed to maximise shareholder wealth.” (Santos, AU, 1998, p.40)</p> <p><i>Code:</i> “A significant proportion of executive directors’ remuneration should be structured so as to link rewards to corporate and individual performance.” (Financial Reporting Council, UK, 2006, para.B.1)</p>

Manual coding of the remuneration principles is subjective because each remuneration principle can be phrased in a multitude of ways. To ensure that the coding was robust, several tests of inter-coder and intra-coder reliability were performed.⁷⁴ In each case, Cohen's Kappa was calculated to test for inter-coder and intra-coder reliability, where a Cohen's Kappa of 0.61 or higher equates to substantial agreement between coders (Cohen, 1988; Fleiss, 1981; Krippendorff, 2004). First, two post-graduate students were hired in late 2007 to code a sub-sample of 20 corporate annual reports to ensure that there was limited coder bias. There was substantial agreement between their and my coding of these texts with Cohen's Kappa of 0.68 and 0.80. Second, this test was repeated with two different post-graduate students in late 2009. There was substantial agreement between their and my coding of the sub-sample of texts with Cohen's Kappa of 0.66 and 0.69. Third, I recoded this sub-sample of texts in mid-2010. There was substantial agreement between my original coding and recoding of the sub-sample of texts with Cohen's Kappa of 0.95.

The coding procedure is robust (i.e. a layperson that repeated the coding of the sampled texts would produce similar results) for the following reasons. First, tests of inter-coder and intra-coder reliability showed that there was substantial agreement between coders (see above). Second, the post-graduate students who were coders did not adhere to the coding procedure. Instead, they were overly conservative in their approach to coding. When the post-graduate students read sentences in the corporate annual reports that were similar but not identical to the examples in the coding procedure, they did not code these sentences as indicative of the remuneration principles. This resulted in a consistently lower rate of detection than mine. Pre-coding, the post-graduate students had been told that the coding procedure includes a range of keywords for each remuneration principle to ensure that differently worded remuneration principles are still detected in texts. They thought that these instructions were not entirely clear because this was their first experience in coding and they did not want to over-report the incidence of the remuneration principles. Post-coding, the post-graduate students agreed that they had under-reported the incidence of the remuneration principles.

Data were also collected on why companies may adopt remuneration principles (i.e. antecedents). First, industry data were collected because companies in industries that have

⁷⁴ Note that the sampled codes and corporate annual reports were acquired over a period of two and a half years (from October 2007 to April 2010), and coding occurred throughout this period. During the early stages of coding, several significant changes to the coding procedure were made and this meant that all of the data previously gathered had to be checked to ensure consistency with the revised coding procedure.

relatively high CEO pay (e.g. banking and financial services) may adopt remuneration principles to defend their legitimacy to a greater extent than others.⁷⁵ Second, firm size data (including market capitalisation, net and total assets, and revenue) were collected because relatively large companies may face greater pressure from stakeholders to provide remuneration disclosure and, therefore, are more likely to use remuneration principles. Third, firm performance data (including return on assets, return on equity and total shareholder return) were collected because poor performing firms are more likely to adopt remuneration principles to defend their legitimacy (Zajac and Westphal, 1995).⁷⁶ Fourth, data on companies' stock exchange listings were collected because companies listed on multiple stock exchanges will be subject to greater institutional pressures (e.g. multiple codes) than those listed on one stock exchange and, therefore, are more likely to use remuneration principles found in codes. However, correlation and regression analyses revealed few statistically significant relationships. This may be due to the size of the sample and limited number of years studied. Aside from data on companies with single and multiple stock exchange listings, these results are not reported in Chapter 5.⁷⁷

Data were not collected on corporate governance and executive remuneration (aside from the remuneration principles). The antecedents and effects of the presence of remuneration principles in corporate annual reports (or proxy statements) have been studied in prior quantitative research. Zajac and Westphal (1995) found that CEO pay did not vary when the adoption of long-term incentive plans were justified with either the agency or human resources principle. They also found that the choice of remuneration principle was dependent on CEO power and firm performance. In contrast, Wade et al. (1997) found that US companies are more likely to use the agency and pay-for-performance principles to justify CEO pay when the CEO is highly paid in terms of base salary and annual bonus, but not long-term incentives. However, these relationships are not studied. The pilot study revealed that

⁷⁵ The Times (London, UK) classifies companies listed on the London Stock Exchange into 16 industries including: Banking and Finance; Investment Companies; Construction and Property; Consumer Goods; Engineering; Health; Industrials; Leisure; Media; Natural Resources; Professional and Support Services; Retailing; Technology; Telecoms; Transport; Utilities. The sampled companies were classified according to the industry in which they generate the most revenue. This is a limitation as companies that operated in multiple industries were classified as belonging to only one industry.

⁷⁶ Firm performance data were collected from corporate annual reports, newspapers (UK's The Times, AU's The Australian and NZ's National Business Review) and electronic databases (Datex and NZX's Deep Archive). Firm performance data were only collected for the preceding financial year. This is a limitation because companies may not change their usage of remuneration principles until the year after relatively low firm performance. For example, Zajac and Westphal (1995) studied firm performance over multiple years and found a relationship between firm performance and disclosure of certain remuneration principles.

⁷⁷ Some of this statistical analysis was published in Crombie (2009). This is reproduced in Appendix D.

CEOs in UK, AU and NZ companies have comparable remuneration packages, which have not significantly changed over time.⁷⁸ The research questions were crafted so that a quantitative research method was not required.⁷⁹

Data were not collected on the corporate objective and human behaviour. Chapter 2 presents a general framework for corporate governance that has two dimensions: Corporate objective (shareholder value and stakeholder value) and behavioural model of executives (agent and steward). This results in four quadrants or institutional logics. Data could be collected on these dimensions from codes and corporate annual reports in order to determine an organisation's position. Code issuers do recommend a corporate objective and companies do describe their corporate objective (e.g. mission statement). However, it is problematic to determine the assumptions of code issuers and companies regarding how executives behave. Some inferences can be derived from codes and corporate annual reports. For example, the assumption of executives as agents would be consistent with code issuers recommending or companies declaring that boards act as monitors of (not advisors to) executives. These data have not been collected because the value of these data only became apparent in the later stages of the research. This limitation is partially mitigated as the next phase of this research collected some data from codes and corporate annual reports on the corporate objective and human behaviour (see Section 4.5).

Although not directly related to Research Question 1, other data were also collected from the sampled texts in order to gain insight into the process of institutional change (see Appendix E). Jolts (e.g. corporate scandals) can bring about institutional change (Enrione et al., 2006; Greenwood et al., 2002). To explore this possibility, the rationales that codes provided for why the code was produced were collected and categorised as follows: jolts (e.g. corporate scandals), inspired by other texts, scheduled revision of code, and/or other reasons. Further, institutional change occurs if institutional entrepreneurs are powerful and have the support of

⁷⁸ While the level of CEO remuneration has significantly increased over time in many countries including the UK, AU and NZ (Fernandes et al., 2009; Mishel et al., 2007), the structure of CEO pay does not appear to vary between countries and over time. The standard package includes salary, short-term incentives and long-term incentives (see Chapter 3, Table 3.4 and Chapter 6, Section 6.2). However, there may have been changes in the mix between fixed and variable pay as well as changes in the types of incentive schemes adopted (e.g. cash, shares or share options). This is a limitation that both the level and structure of CEO pay has not been quantified, although the structure of CEO pay is studied qualitatively in Chapter 6.

⁷⁹ Note that it is also impractical to study changes over time in the level and structure of CEO pay in AU and NZ because there were minimal remuneration disclosure requirements prior to the early 2000s. There would have been much missing data.

others within the organisational field (Battilana et al., 2009; Greenwood et al., 2002). Codes supported by powerful entities (e.g. Government) or produced by directors⁸⁰ may have greater influence on corporate reporting than codes produced by others. To explore this possibility, data on the range of entities issuing the codes and the code authors' affiliations were also collected.⁸¹ Finally, notes were made on the process by which the codes were produced in order to gain insight into the influence of lobbying and the closeness between code issuers and companies.⁸²

4.4.4. Data Analysis

To address Research Question 1, the incidence of six remuneration principles was tracked in codes and corporate annual reports over time. These findings are predominantly descriptive statistics and presented in tables or as graphs in Chapter 5. First, how codes changed across editions is studied. Second, differences in means between companies' incidence of remuneration principles in 1998 and 2007 are calculated. Statistically significant differences are highlighted. Third, the influence of codes (as coercive and normative pressure) on companies is examined, although the findings are limited as the sample includes only two or three years of corporate annual reports. Fourth, using the remuneration principles as proxies for Corporate Logic and Investor Logic, the diffusion of institutional logics in codes and corporate annual reports is also studied. The code issuers and companies that did and did not change their usage of remuneration principles over time are identified for further analysis (see Section 4.5.3). Overall, these descriptive statistics show how remuneration principles and

⁸⁰ For example, FRC's *The UK Corporate Governance Code* is a product of official reports by high-profile directors including Sir Adrian Cadbury, Sir Richard Greenbury, Ronnie Hampel, Derek Higgs and David Walker.

⁸¹ Code issuers were categorised as follows: Stock Exchange; Stock Exchange Regulator; Government Department; Directors' Association; Executives' Association; Professional Association (e.g. Accountants or Lawyers); Fund Managers' Association; Financial Services Association (e.g. Insurance); Investors' Association; Employees' Association; Business Association; Academic (e.g. University); Other. Authors' affiliations were categorised as follows: Stock Exchange; Stock Exchange Regulator; Government Department; Directors' Association; Executives' Association; Professional Association; Fund Managers' Association; Financial Services Association; Investors' Association; Employees' Association; Business Association; Academic; Professional Firm (e.g. Accountancy or Law Firm); Consultants (e.g. Recruitment or Remuneration Consultancy); Director of Publicly Listed Company; Executive of Publicly Listed Company; Other.

⁸² Data were not collected on the identities of those individuals and organisations that lobbied the code issuers. For example, code issuers often interviewed experts on corporate governance (e.g. directors and their advisors) and called for public submissions on the issues at hand. This identity information is publicly available for some, but not all of the sampled codes. This information was not collected and coded because it would have been too time-consuming. For example, there were 141 submissions made on Walker (2009) alone. Also, submissions made to code issuers were not analysed. This is a limitation because code issuers may not treat all submissions equally. For example, submissions by directors and their advisors may be more influential than others' submissions.

institutional logics have diffused over time in the UK, AU and NZ. Differences between countries are also highlighted.

4.5. Research Question 2

Research Question 2 concerns how Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration of code issuers and companies. A sample of codes and corporate annual reports is selected in order to study this discourse. These texts are investigated in two different ways (or two stages). First, a discourse analysis of executive remuneration practices within the discourse is conducted to demonstrate the differences between Corporate Logic and Investor Logic. Second, a discourse analysis of code issuers and companies is carried out to reveal exemplars of Corporate Logic, Investor Logic and both Logics. These approaches are forms of purposive sampling (Saunders et al., 2009). Using such approaches to examine the discourse on executive remuneration is novel and, therefore, exploratory. Why this is appropriate is explained next.

4.5.1. Discourse Analysis

Discourse analysis is “*the structured and systematic study of collections of interrelated texts, the processes of their production, dissemination and consumption, and their effects on the context in which they occur*” (Phillips and Di Domenico, 2009, italics in original, p.551). Bridging the macro-micro divide, discourse analysis generates insight into how texts are constructed to persuade readers (the micro) and how texts construct social reality (the macro). Alvesson and Kärreman (2000) explain that there are multiple types of discourse from macro to micro and from autonomous to determinant (i.e. discourse that is coupled to action). Discourse analysis as a research method can be adapted to study one or multiple aspects of discourse. Further, Phillips and Hardy (2002) argue that the researcher’s paradigmatic assumptions vary with the focus of their discourse analysis. Researchers who have a micro focus (e.g. language use in texts) will draw on linguistics, while researchers who have a macro focus (e.g. texts in context) will draw on interpretive or critical methodology. While critical approaches tend to examine power and politics (e.g. how texts can legitimise those with power), interpretive approaches tend to investigate the construction of social reality (e.g. how texts create shared understandings).

Using discourse analysis as a research method for analysing texts is fraught with difficulty. While discourse analysis has been described as both theory and method, it can appear to be

nothing at all to researchers who have not heard of it before. Unlike other research methods, there are multiple versions of discourse analysis, each of which has not precisely defined (Alvesson and Kärreman, 2000; Phillips and Di Domenico, 2009). For instance, Phillips and Hardy (2002) identify four types: Interpretive structuralism, critical discourse analysis, social linguistic analysis and critical linguistic analysis. Most prominent in organisational studies is critical discourse analysis, although there are many varieties (Alvesson and Kärreman, 2011; Wodak and Meyer, 2009). Further, there are almost no studies of discourse that have a methodology of interpretive structuralism. Similarly, there are almost no studies on corporate governance or executive remuneration that have utilised any variety of discourse analysis.⁸³ Thus, discourse analysis as a method and prior research that has utilised discourse analysis offers no formula or guide for carrying out research on the discourse on executive remuneration.⁸⁴ Phillips and Hardy (2002, p.74) confirm that “researchers need to develop an approach that makes sense in light of their particular study”.

Drawing on interpretive structuralism (Phillips and Hardy, 2002), a discourse analysis is used to understand the discourse on executive remuneration in different institutional settings. Essentially, the present study investigates how Corporate Logic and Investor Logic shape how code issuers and companies construct their social reality with respect to executive remuneration.⁸⁵ Code issuers and companies may draw on one or both Logics to legitimise their recommendations and practices, respectively. For example, shareholder value maximisation – which is part of both logics – has become the corporate objective that is legitimate, at least for US companies (Lazonick and O’Sullivan, 2000; Sundaram and Inkpen, 2004a). However, legitimacy is an ethereal construct. For example, Deephouse and Suchman (2008, p.50) define organisational legitimacy as “the degree of cultural support for an organisation”. What is illegitimate is easier to define than what is legitimate: organisations that are sanctioned (e.g. fined) following an economic, environment, legal or social crisis are said to be illegitimate or losing their legitimacy (Ashforth and Gibbs, 1990). The main

⁸³ Of the studies that were found, all had a critical methodology. This methodology is incompatible with this research’s methodology (see Section 4.3). However, Craig and Amernic’s (2004) research method was found to be instructive. They studied Enron’s discourse and showed how capitalism is defended within this discourse. Their method involved a line-by-line analysis of two texts.

⁸⁴ This is a contentious point as there are many books on discourse analysis (e.g. Jørgensen and Phillips, 2002; Phillips and Hardy, 2002; Titscher et al., 2000), but these books do not provide a formula or guide. In contrast, there are many formulas or guides for carrying out content analysis (Bryman and Bell, 2003).

⁸⁵ In this context, companies are equated to boards of directors and remuneration committees. Executive remuneration is not determined by the company as a whole, but by the board of directors and remuneration committee.

limitation of this phase is that the legitimacy of companies' executive remuneration policies and practices are not directly examined.⁸⁶

4.5.2. A Pilot Study

Following Phillips and Hardy's (2002) advice, a pilot study of the discourse on executive remuneration was undertaken in order to: First, come to terms with discourse analysis as a method and interpretive structuralism as a methodology; and second, understand how Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration (see Appendix F). The sample included one recent code and one 2007 annual report from the UK, AU and NZ (six texts in total). The most influential codes were selected (i.e. produced by the local regulator). Corporate annual reports that included the median number of the remuneration principles for each country in 2007 were randomly selected. Based on the general framework of corporate governance developed in Chapter 2 (see Table 2.3), eight aspects of corporate governance and executive remuneration were studied.⁸⁷ For each aspect, the extent to which Corporate Logic and Investor Logic were consistent with code issuers' recommendations and companies' policies and practices were examined. The findings showed that while the discourse is multifaceted and highly nuanced, the discourse is strongly consistent with both Corporate Logic and Investor Logic. Thus, discourse analysis can be used to generate insight from an institutional logics perspective.

4.5.3. Sample of Texts

Table 4.6 details the sub-sample of codes and corporate annual reports that were purposively selected from the full sample (as per Tables 4.3 and 4.4). The sub-sample includes 55 codes (1991-2010) produced by four UK code issuers, six AU code issuers and four NZ code issuers, as well as 75 corporate annual reports (1989 for UK only, 1998 and 2007) produced by eleven UK companies, nine AU companies and thirteen NZ companies. While the size of the sub-sample is small relative to the size of samples in prior research (e.g. Zajac and Westphal, 1995), it is large relative to prior research that uses discourse analysis (e.g. Craig

⁸⁶ Financial performance may be used as a proxy for organisational legitimacy (Deephouse and Suchman, 2008). For example, a loss of legitimacy may be signalled by a decline in a company's share price relative to other companies in the same industry. However, low performance by itself does not necessarily equate to low legitimacy. Deephouse and Suchman (2008) point out that financial performance is only one part of organisational legitimacy.

⁸⁷ Including human behaviour, corporate objective, independence of the board of directors, role of the board of directors (particularly non-executive directors), role of the remuneration committee, remuneration policies and practices for non-executive directors, remuneration policies and practices for executives, and performance measures for evaluating executives.

and Amernic, 2004). The sub-sample size was purposely selected in order to: First, reveal the variation of executive remuneration policies and practices within the full sample (Saunders et al., 2009); and second, understand how code issuers' recommendations and companies' remuneration policies and practices changed over time. Codes issuers that produced multiple codes over time were selected. Companies were selected from the continuous sample (see Table 4.4). Further explanation of how the texts were selected is given below.

Table 4.6: Sub-sample of Codes and Corporate Annual Reports

Countries	Codes		Corporate Annual Reports	
	<i># of Codes</i>	<i># of Code Issuers</i>	<i># of Annual Reports (Year)</i>	<i># of Companies</i>
UK	22	4	10 (1989) 10 (1998) 11 (2007)	10 10 11
AU	19	6	9 (1998) 9 (2007)	9 9
NZ	14	4	13 (1998) 13 (2007)	13 13
Total	55	14	75	33

Table 4.7 lists the sample of codes.⁸⁸ One aim of the content analysis (as described in Section 4.4) is to show how Corporate Logic and Investor Logic have diffused in codes over time. Note that the remuneration principles are indicators of Corporate Logic and Investor Logic. The findings, at least in terms of the incidence of remuneration principles, reveal that there had not been a lot of change in the codes over time. Code issuers' initial recommendations with respect to executive remuneration appear to be unchanged in subsequent editions of their codes. As the remuneration principles in this instance do not reveal much variation between the codes, all of the codes were sampled. This helps to ensure that most of the variation is captured.

⁸⁸ Table 4.7 is a reproduction of Table 5.6 from Chapter 5. Note that the content analysis was completed before the discourse analysis was started.

Table 4.7: Sub-sample of Codes

Change in Institutional Logic	UK	AU	NZ
<i>No Change</i>			
Neither Logic		Bosch's Corporate Practices and Conduct (Bosch) (1991; 1993; 1995)	
Investor Logic		Hilmer's Strictly Boardroom (Hilmer) (1993; 1998)	MinterEllisonRuddWatts (MERW) (2003; 2009)
Both Logics	Financial Reporting Council's (FRC) Combined Code (1998, 2003, 2006, 2008, 2010)	Investment and Financial Services Association (IFSA; formerly, Australian Investment Managers' Association, AIMA) (1995; 1997; 1999; 2000; 2002; 2004; 2007a, b; 2009) ² Australian Institute of Company Directors (AICD) (2000; 2003; 2007) ² Australian Stock Exchange's Corporate Governance Council (ASXCGC) (2003; 2007; 2010) Australian Shareholders' Association (ASA) (2000; 2004a,b; 2007) ²	Securities Commission (SecCom) (2004b; 2006; 2010) Institute of Directors in New Zealand (IODNZ) (2005; 2010)
<i>Change</i>			
From Both Logics to Investor Logic	Official reports (Cadbury, 1992; Greenbury, 1995; Hampel, 1998; Higgs, 2003; Walker, 2009) ¹		
Oscillating between Investor Logic and Both Logics	Association of British Insurers (ABI) (1993; 1996; 1999a,b; 2002; 2005; 2007) Hermes Investment Management Limited (Hermes) (1999; 2002; 2003; 2006; 2008)		
Oscillating between no Logic and Investor Logic			New Zealand Stock Exchange Limited (NZX) (1994; 1999; 2003; 2004; 2005; 2009; 2010)
Notes:			
1 All of the official reports except Walker (2009) include both Logics. While Walker's (2009) recommendations are based on Investor Logic, FRC's Combined Code (which includes both Logics) is also endorsed.			
2 The 2000 and 2007 editions of these codes are jointly issued by IFSA, AICD and ASA.			

Table 4.8 lists the sample of corporate annual reports.⁸⁹ One aim of the content analysis (as described in Section 4.4) is to show how Corporate Logic and Investor Logic have diffused in corporate annual reports over time. The findings, at least in terms of the incidence of remuneration principles, revealed that there had been a range of changes in the corporate annual reports over time. The most frequent change was from no Logic to both Logics. For most companies, once a remuneration principle is adopted in their annual report, it is rarely dropped in their subsequent annual reports. This is particularly significant between there is a gap of nine years between the annual reports that were studied. To help ensure that the variation within the no change and change categories was captured, two companies were randomly selected from each category.⁹⁰ Note that UK companies selected in the first time period (1989 to 1998) were traced through into the second time period (1998 to 2007). This meant that 10 UK companies were studied over 18 years.

⁸⁹ Table 4.8 is a partial reproduction of Table 5.10 from Chapter 5.

⁹⁰ Note that the selection was often forced because there were only one or two companies in many categories.

Table 4.8: Sub-sample of Companies

Change in Institutional Logic	UK 1989 to 1998		UK 1998 to 2007		AU 1998 to 2007		NZ 1998 to 2007	
	No.	Sample	No.	Sample	No.	Sample	No.	Sample
<i>No Change</i>								
Corporate Logic			1	7. Antofagasta				
Investor Logic							2	20. Air New Zealand 21. Property for Industry
Both Logics	2	1. Legal and General 2. Pearson	45	9. British American Tobacco 10. Unilever	28	12. Bluescope Steel 13. Qantas	5	22. Guinness Peat Group 23. Westpac Banking Corporation ¹
Neither Logic							7	24. EBOS Group 25. Steel and Tube
<i>From Corporate Logic to...</i>								
Both Logics	3	3. Sainsbury J 4. Tesco	1	8. Associated British Foods	5	14. QBE Insurance 15. Westfield Holdings		
<i>From Investor Logic to...</i>								
Corporate Logic							1	26. BIL International
Both Logics	2	5. Cadbury 6. Standard Chartered	1	11. Xstrata	3	16. Newcrest Mining 17. Telstra Corporation	4	27. Sky Network 28. Telecom Corporation of N.Z.
<i>From No Logic to...</i>								
Corporate Logic	2	7. Antofagasta 8. Associated British Foods					1	29. Tourism Holdings
Investor Logic							5	30. Hellaby Holdings 31. Michael Hill International
Both Logics	29	9. British America Tobacco 10. Unilever			10	18. Brambles 19. Toll Holdings	14	32. Fisher and Paykel Healthcare 33. The Warehouse
No. of Companies	38		48		46		39	
Note								
1 The five companies (except Guinness Peat Group) in the ‘No Change – Both Logics’ had their primary listing on the ASX in AU. With the addition of Westpac Banking Corporation, there are nine AU companies in the sub-sample.								

However, the sub-sampled codes and corporate annual reports do not contain the maximum variation of recommendations and practices with respect to executive remuneration. As the content analysis was carried out, extensive notes were made on the executive remuneration policies and practices that were recommended by code issuers and adopted by companies (see Section 4.4.1). After making further notes on the sub-sample of codes and corporate annual reports, some differences between the full sample and the sub-sample emerged. Drawing on the notes from the content analysis, additional examples are presented in Chapter 6. These examples are noted as being from the full sample, not the sub-sample. However, the general tenor of the codes and corporate annual reports in the sub-sample is consistent with that of the full sample.

4.5.4. Stage 1: A Discourse Analysis of Executive Remuneration Practices

Stage 1's objective is to uncover the range of executive remuneration practices that are recommended by codes issuers and adopted by companies, and then to explore how, if at all, Corporate Logic and Investor are embedded in the range of executive remuneration practices. Discourse analysis is used to understand multiple aspects of the discourse. The variables and data analysis are discussed next.

4.5.4.1. Variables

Table 4.9 details the investigative procedure used to collect data from the sub-sample of codes and corporate annual reports. Executive remuneration practices are comprised of practices related to fixed remuneration, variable remuneration and total remuneration. This is based on the remuneration literature (see Chapter 3, Table 3.4). Essentially, notes were made on what code issuers recommended and how they justified their recommendations, and on what companies practiced and how they justified their practices. Further, notes were made on the corporate objective, general features of the texts, endogenous (or organisational) factors and exogenous (or environmental) factors. These notes generated some insight into the code issuers and companies as well as the personalities of the people governing these entities, which proved useful in Stage 2 (see Section 4.5.6). Overall, the notes were brief for the most texts, but were quite extensive for AU and UK 2007 corporate annual reports.

Table 4.9: Investigative Procedure for Executive Remuneration Practices

Variables	Investigative Procedure for Codes	Investigative Procedure for Corporate Annual Reports
<i>Fixed Remuneration</i>		
1. Base salary and benefits	For the following, what is recommended and how is it justified: Level, comparator group, and conditions.	For the following, what is practiced and how is it justified: Level, comparator group, and conditions.
2. Pension / Superannuation	For the following, what is recommended and how is it justified: Scheme (e.g. defined benefit or contribution), level and conditions.	For the following, what is practiced and how is it justified: Scheme, level and conditions.
3. Payments for recruitment, retention and severance	For the following, what is recommended and how is it justified: Schemes, level, and conditions (e.g. continuous employment or performance).	For the following, what is practiced and how is it justified: Schemes, level, and conditions.
<i>Variable Remuneration</i>		
4. Short-term incentives (or annual bonus)	For the following, what is recommended and how is it justified: Schemes (one or multiple), performance measures, targets, level, payment and conditions of deferred portion.	For the following, what is practiced and how is it justified: Schemes (one or multiple), performance measures, targets, level, payment and conditions of deferred portion.
5. Long-term incentives	For the following, what is recommended and how is it justified: Schemes, performance measures, targets, level, payment, vesting period, and other aspects (e.g. interest-free loans).	For the following, what is practiced and how is it justified: Schemes, performance measures, targets, level, payment, vesting period, and other aspects.
6. Minimum shareholding requirements	For the following, what is recommended and how is it justified: Level and method (e.g. short-term incentive payments must be used to acquire minimum shareholding).	For the following, what is practiced and how is it justified: Level and method.
<i>Total Remuneration</i>		
7. Mix of fixed and variable	What is recommended as the desired mix of fixed and variable remuneration? Why?	What is stated as the desired mix of fixed and variable remuneration? How is the desired mix justified?
8. Level of fixed, variable and total	What recommendations are given regarding the whole remuneration package? How are these recommendations justified?	How, if at all, is the whole remuneration package assessed? How is the whole remuneration package justified?
<i>Corporate Objective</i>	What is the recommended corporate objective? Why?	What is the stated corporate objective? How, if at all, is it justified?
<i>Features of Text</i>	Do any of the code's recommendations appear to be symbolic? Why?	Do any of the company's practices appear to be symbolic? Why?
<i>Endogenous Factors</i>	What type of entity is the code issuer? Who are the members of the code issuer? What might be the agenda of the coder issuer?	Who are the members of the board and management? Do they own shares? Have they been a party to corporate scandals or code issuers?
<i>Exogenous Factors</i>	Why was the code issuer established? What motivated the code to be produced (e.g. response to corporate scandal)?	Has the company had negative publicity on executive remuneration (e.g. negative shareholder vote)?

4.5.4.2. Data Analysis

There were two phases to the data analysis. First, the range of recommend and adopted practices and the range of justifications of the practices found in the sub-sample of codes and corporate annual reports by country and time period was ascertained. This purposive sampling was used to “collect data to describe and explain the key themes that can be observed” (Saunders et al., 2009, p.239). This enables possible trends to be detected and analysed further. As expected, the range was limited because code issuers’ recommendations are non-specific and companies’ remuneration disclosures are minimal, particularly on why certain practices are adopted.⁹¹ However, some AU companies in 2007, some UK companies in 1998 and most UK companies in 2007 disclosed a lot of specific information on executive remuneration. As a result, the examples provided in Chapter 6 are drawn mainly from these companies.⁹² Second and more importantly, the various recommendations and practices were categorised as being consistent with no Logic, Corporate Logic, Investor Logic, Stakeholder Logic or some other Logic. The theoretical underpinnings of the institutional logics were used to guide this categorisation (see Chapter 2, Tables 2.2 and 2.3; Chapter 3, Tables 3.2 and 3.5). Most recommendations and practices appear to be consistent with Corporate Logic and/or Investor Logic.

There are several limitations to this discourse analysis. First and most significantly, non-financial (intrinsic and extrinsic) rewards are ignored because there is almost no discussion of these rewards in codes and corporate annual reports. For example, a company may appear to have a humble executive remuneration policy, but they may reward their executives using other rewards such as corporate jets, chauffeured limousines, extravagant offices, etc. This is a significant limitation because the critical difference between Corporate Logic and Investor concerns how executives are assumed to behave. Second, the findings cannot be generalised to the population. Third, the examples could have been selected in a biased or haphazard manner, although the pilot study demonstrates that the discourse on executive remuneration has been studied thoroughly and systematically (see Section 4.5.2). However, it is recognised

⁹¹ A notable exception is the UK’s Greenbury (1995) report on directors’ remuneration. This text is very different to the other codes in the sub-sample because it includes detailed and specific recommendations. However, Chapter 6 does not include many examples from Greenbury (1995) because it is an outlier relative to the other codes.

⁹² When there were no examples of a particular recommendation or practice amongst the sub-sample of codes and corporate annual reports, examples from the full sample were used. These examples are noted in Chapter 6 as being from the full sample, not the sub-sample.

that most examples in Chapter 6 are from AU and UK corporate annual reports in 2007. Overall, these limitations highlight that this discourse analysis is exploratory.

4.5.5. Stage 2: A Discourse Analysis of Exemplars of Institutional Logics

Stage 2's objective is to identify exemplars of Corporate Logic, Investor Logic, Both Corporate Logic and Investor Logic, Stakeholder Logic and no Logic from the sub-sample of codes and corporate annual reports.⁹³ Essentially, this approach is an example of maximum variation sampling (Saunders et al., 2009). The aim was to identify at least one code and one corporate annual report from UK, AU and NZ in which one of the institutional logics is strongly embedded. However, for some institutional logics, few codes or corporate annual reports were identified. This stage of the discourse analysis is reflective in that I drew on my cumulative knowledge and experience (e.g. all of the notes from the preceding content and discourse analyses) to decide whether each of the sub-sample of codes and corporate annual reports were exemplars or not. To decide if an institutional logic was strongly embedded in a code or corporate annual report required careful consideration of all of the data that had previously been collected. Some factors that were influential: Ownership structure of companies,⁹⁴ corporate governance,⁹⁵ the tenor of the remuneration policy, emphasis on performance-based remuneration, and lack of recommendation on or use of relative total shareholder return as a performance measure.⁹⁶ The process of matching companies to institutional logics is subjective because there are no particular features of companies that are definitive indicators of Corporate Logic and Investor Logic, although it was guided by prior research on institutional logics (see Chapter 2, Table 2.3 and Chapter 3, Table 3.5).

There are several limitations of this discourse analysis. First, the proportion of code issuers and companies in which each of the institutional logics is strongly embedded is unknown.

⁹³ While data were collected for the content analysis, it was observed that a few companies espoused stakeholder value maximisation as the corporate objective. Stakeholder Logic is studied to ascertain whether or not there are any code issuers or companies whose discourse was not consistent with Corporate Logic and/or Investor Logic. Political Logic was also considered, but none of the code issuers and companies studied had discourse that was consistent with it.

⁹⁴ Directors or executives are more likely to behave as stewards if they founded the company or are a member of the founder's family (Anderson and Reeb, 2003).

⁹⁵ Corporate Logic (and stewardship theory) implies that the board of directors should be comprised of mainly executive directors and have an executive chairperson (Davis, et al., 1997; Grundei, 2008). Investor Logic has opposing implications.

⁹⁶ Typically, long-term incentives are dependent on relative targets for earnings per share and total shareholder returns (Chambers and Weight, 2008; Murphy, 1999; Zakaria, 2011). However, Corporate Logic is consistent with absolute targets for internal performance measures, while Investor Logic is consistent with relative targets for external performance measures (see Chapter 3, Section 3.6). Thus, particular attention is given to the performance measures that companies use.

The findings are exploratory and cannot be used to generalise to the population. Second, there may be researcher bias in selecting and analysing the exemplar codes and corporate annual reports. Within Chapter 6, the descriptions of each code issuer's recommendations and each company's practices were necessarily simplified. Different researchers may disagree on the extent to which each of the institutional logics is strongly embedded in the codes and corporate annual reports because they may perceive different features of the texts to be important. As the discourse analysis was necessarily exploratory, readers should be cautious in considering the robustness of the findings. However, this approach is necessarily exploratory because there has been scant prior research that has studied how institutional logics are embedded in codes and corporate annual reports.

4.6. Research Question 3

Research Question 3 concerns how Corporate Logic and Investor Logic influence how remuneration decisions are made in the boardroom. Prior research from an institutional logics perspective has not examined the similarities and differences between public discourse (e.g. remuneration policies in corporate annual reports) and private discourse (e.g. how remuneration committees make decisions). Thus, the connections between public and private discourse on executive remuneration are examined. Additionally, this research differs from prior qualitative research on remuneration committees because it employs an institutional logics perspective (see Chapter 3, Section 3.2). To address Research Question 3, interviews with organisational actors were conducted. There were several stages to this approach. First, a pilot study was conducted to gain an understanding of how remuneration committees in NZ listed companies make decisions and, hence, to refine the interview questions (see Section 4.6.1). Second, a potential list of interviewees were identified and then invited to participate in the research (see Section 4.6.2). The sample of interviewees included executives, non-executive directors, remuneration consultants and code issuers. Third, the interviews were semi-structured and the interview questions were tailored to the interviewees' experiences (see Section 4.6.3). Fourth, the interview transcripts were themed and analysed (see Section 4.6.4).

4.6.1. A Pilot Study

A pilot study was carried out to gain an understanding of how remuneration decisions for NZ companies may be similar or different to AU and UK companies; to develop and refine interview questions that are relevant to both the interviewees and this research; and to refine

my interviewing skills. A number of academics, directors and consultants were consulted. This occurred on both a formal and informal basis. Notes were made during and after these discussions. Occasionally, these discussions were electronically recorded with the consent of the other party. My supervisors and I discussed summary notes from these consultations on many occasions. The pilot study revealed the following: First, NZ companies are not particularly different from companies in other countries. However, the remuneration committees in NZ companies have a conservative approach to remuneration decisions (e.g. the level of variable and total remuneration is lower than similar companies in other countries). This may be an indicator of Corporate Logic. Second, remuneration consultants, by providing data and advice, may influence remuneration decisions in the boardroom to a greater extent than code issuers.

4.6.2. Sample of Interviewees

The sample of interviewees was purposively, not randomly selected (Neuman, 2006; Saunders et al., 2009). To gain an understanding of how remuneration decisions are made in NZ companies, the interviewees needed to include executives and non-executive directors of listed companies, consultants to listed companies, and representatives of code issuers. Given the emphasis on remuneration decisions, most interviewees needed to be non-executive directors who are members of remuneration committees. The number of interviewees was not predetermined. Instead, the approach was to keep interviewing additional organisational actors until strong themes emerged from the data, (i.e. coalescing opinions among many interviewees) (Neuman, 2006; Saunders et al., 2009).⁹⁷ Several approaches were taken to identify potential interviewees: First, ideal interviewees (e.g. directors who have held many directorships) were identified and contacted via letter, email and/or telephone; second, my supervisors and I used our personal contacts to find relevant interviewees; and third, interviewees asked other potential interviewees, on my behalf, if they would be willing to be interviewed.⁹⁸ The latter two approaches had a very high success rate in gaining access to interviewees.

Prior to contacting potential interviewees, approval from the University of Canterbury's Human Ethics Committee was obtained to carry out this phase of the research (see Appendix

⁹⁷ This approach is consistent with a constructivist and interpretive methodology (Lundberg and Young, 2005).

⁹⁸ This approach is known as snowball sampling and is appropriate because the population is easily identifiable (e.g. code issuers and listed companies in the public eye) (Saunders et al., 2009).

G). For the potential interviewees that were contacted via letter or email, they were sent: an information sheet, a list of interview topics, a consent form, and a researcher agreement form (see Appendix H). Interviewees that were contacted via telephone were only sent these documents if they expressed interest in participating in the research. The information sheet outlined the research objectives, the time commitment involved for interviewees, the use of an electronic device to record interviews and the promise of confidentiality. In terms of the latter, interviewees are not explicitly identified. Direct quotes (see Chapters 7, 8 and 9) have been censored so that the interviewees cannot be inadvertently identified. The interviewees were assigned pseudonyms (Director A, Executive A, Consultant A and Code Issuer A). The list of topics to be discussed was based on the prior literature (see Chapters 2 and 3) and developed from the pilot study (see Section 4.6.3). Note that there were different interview questions for different types of interviewees. Before each interview began, interviewees signed the consent form, or interviewees gave verbal consent for telephone or Skype interviews. Similarly, each interviewee was given a signed copy of the researcher agreement or I gave a verbal promise to the interviewees in telephone and Skype interviews.

Table 4.10 outlines the sample of interviewees. 33 individuals were interviewed including 5 executives, 16 non-executive directors, 6 remuneration consultants, 1 recruitment consultant, and 5 representatives of code issuers. Several interviewees could be included in multiple categories, as of the 16 non-executives directors, 9 are former executives, 2 are consultants, and 2 are representatives of code issuers. The executives and non-executives directors represented 38 companies that are or were listed on the New Zealand Exchange (NZX). The non-executive directors have held on average 3 directorships in NZX listed companies as well as directorships in Australian listed companies, NZ private companies, NZ charities and NZ Government-owned entities. The consultants represented 4 consulting firms. The representatives of code issuers represent 3 code issuers. Thus, the interviewees are relevant because they are representative NZ listed companies and related parties (i.e. consultants and code issuers). The interviews lasted 42.5 hours in total or 77 minutes on average. I transcribed all of the interviews, which equalled 264,699 words in total or 8,021 words on average.

Table 4.10: Sample of Interviewees

	Executives	Non-executive Directors	Consultants	Representatives of Code Issuers	Total
# of interviewees	5	16	7	5	33
# of males	5	13	4	4	26
# of females	0	3	3	1	7

4.6.3. Data Collection

To address Research Question 3, the interviews were designed to collect data on the interviewees' beliefs and experiences with respect to corporate governance and executive remuneration; and the context in which the interviewees formed their beliefs and had their experiences. This is a qualitative approach as the data are narratives, rather than numbers. There are three types of interviews: Structured, semi-structured and unstructured. Structured (or standardised) interviews were not used because the researcher (or interviewer) is not able to pose unplanned questions to the interviewees and the interviewees' responses are reduced to brief answers or numbers (Bryman and Bell, 2003; Saunders et al., 2009). That is, the context of the interviewees' responses is lost. Unstructured interviews were not used because the researcher is reliant on the interviewees' responses to guide the interview and, therefore, the same topics may not be covered in each interview (Bryman and Bell, 2003; Saunders et al., 2009). Using semi-structured interviews was most appropriate as there were general and specific topics to be discussed during the interviews (Hermanson et al., 2011). This involved asking all interviewees the same general questions, and then asking each interviewee specific but unplanned questions, depending on their responses to the general questions.⁹⁹

Table 4.11 outlines the topics that were covered by the general questions. Each type of interviewee was asked the same general questions, but each type had slightly different general questions. For example, only representatives of code issuers were asked about how codes are produced. The general questions were derived from prior qualitative research on remuneration committees (e.g. Bender, 2004; Main et al., 2008) and the pilot study (see Section 4.6.1). The general questions covered a range of topics including interviewees' background, remuneration principles, remuneration practices, remuneration processes, stakeholders' influence on and interest in remuneration decisions, and disclosure, regulations, and codes. The unplanned questions also covered these topics, but were tailored to the interviewees' responses. Many general and unplanned questions had a dual nature as

⁹⁹ Hermanson et al. (2011, p.40) urge, "Future researchers are strongly encouraged to ask broad questions early in the interview that allow the interviewees to delve deeply into the issues."

interviewees were asked what they have experienced (descriptive) and what they think should happen (normative). Almost all of the interviews concluded with a discussion of the remuneration principles that are studied (see Table 4.5). Each remuneration principle was described to the interviewees and then they were asked if they thought that the remuneration principle should be adhered to.

Table 4.11: Interview Topics

Interview Topics	Executives	Non-executive Directors	Consultants	Representatives of Code Issuers
Interviewees background (e.g. education and work experience)	✓	✓	✓	✓
Executive remuneration: policies and practices	✓	✓	✓	✓
Remuneration principles	✓	✓	✓	✓
Remuneration committees and their decision-making processes	✓	✓	✓	
Remuneration consultants: Data and advise	✓	✓	✓	
Remuneration disclosure: Regulatory requirements	✓	✓		✓
Remuneration disclosure: Preparing the annual report	✓	✓	✓	
External interest in remuneration (e.g. questions at the annual general meeting)	✓	✓		✓
Codes of practice: Process of producing				✓
Codes of practice: Impact on remuneration decisions and disclosure	✓	✓	✓	✓
Public debate on remuneration (e.g. newspaper articles)	✓	✓	✓	✓

The interviews were conducted between February and July 2010, and each interview involved the interviewee and me, except for one interview that involved two consultants and me. One-on-one interviews were preferred so that the interviewees were able to speak without being influenced or interrupted by another interviewee and feel confident that the interview would remain confidential. 23 interviews were held in-person, 9 over the telephone and 1 via Skype. In-person and Skype interviews were preferred over telephone interviews because the researcher can build a rapport with the interviewees and monitor their body language (Bryman and Bell, 2003; Saunders et al., 2009). However, the quality of the interviews did not appear to vary between interview formats. Further, all of the interviews were recorded using an electronic device. Given that executive remuneration is a sensitive research topic, recording the interviewees may have inhibited their responses (Bryman and Bell, 2003; Saunders et al., 2009). Main et al. (2008) expressed similar concerns, but noted that recording interviews is common for qualitative research on remuneration committees. The main advantage of recording interviews is that it enables the researcher to ask relevant follow-up

questions (as their concentration is not broken by taking notes) and ensures interviewees are accurately quoted.

There are two limitations of the sampling and data collection procedures. First, the interviewees may not be representative of population and their responses may have been selective (e.g. interviewees may not have mentioned incidences that they thought reflected poorly on themselves, their organisations and their professions). While many potential interviewees declined the invitation to participate in the research, the sample of interviewees appears to be representative given the number of organisations covered (see Section 4.6.2). Also, some interviewees appeared to mentally edit their responses to the interview questions or respond in a way that did not answer the questions. However, most interviewees appeared to be open and frank about their experiences and opinions. Second, semi-structured interviews involve much interaction between the researcher and interviewees. This can lead to reflexivity, where the researcher biases the interviewees' responses (e.g. the interviewees tell the researcher what they think the researcher wants to hear) (Bryman and Bell, 2003; Cassell, 2009). However, it was common for the interviewees to correct factual errors that they thought I made and express strong disagreement with some of my opinions. Thus, researcher bias is less likely because the interviewees occupy roles (e.g. directorships) that require them to be strong-minded.

4.6.4. Data Analysis

To gain an understanding of the discourse of the NZ organisational actors, the interview transcripts were analysed in three different ways. First, common and uncommon themes that emerged from the interviews were identified. Notes were made on significant themes emerging from each interview and then these themes were compared across the interviews. Second, the extent to which each interviewee's beliefs and experiences were consistent with Corporate Logic and Investor Logic was considered. This involved summarising each interviewee's opinion of how they think executives should behave, what remuneration principles should be adhered to, and what should be best practice for executive remuneration. Third, the themes from prior research on executive remuneration (see Chapter 3) were used to identify other possible themes in the interview transcripts. Overall, the main themes identified were: Corporate objective, the behavioural model of executives, influence of stakeholders (including code issuers and their codes), remuneration principles, remuneration practices and remuneration processes. These themes correspond to Chapter 7's sub-headings.

Chapter 7 addresses Research Question 3 by analysing interviewees' opinions and experiences. A background on executive remuneration in NZ is presented first. In preparing the background, information from multiple sources were collected and analysed including academic journal articles on executive remuneration in NZ, several books, and, more importantly, newspaper articles published between 1989 and 2010 (obtained from the Factiva database). The background provides context to the findings. The remainder of Chapter 7 includes many quotes from the interviewees, grouped by main themes (see above). Note that the quotes are heavily edited to ensure anonymity of the interviewees and to improve readability. Further, most quotes presented in Chapter 7 are attributed to directors and executives, rather than consultants and code issuers. This is because code issuers are not as influential as had been expected (e.g. some directors had not read the NZ codes) and consultants can only provide limited insight into how remuneration committees make and report most remuneration decisions.¹⁰⁰

The findings represent my interpretation (or reconstruction) of the interviewees' beliefs and experiences (see Chapter 7). Given that an interpretive or constructivist methodology was adopted, the multiple voices of the interviewees have been distilled to create an account of social reality that gives preference to an institutional logics perspective (Guba and Lincoln, 2005). Particular attention is also given to the substantive and symbolic nature of remuneration decision-making and disclosure. The findings do not mirror a physical reality, but generate insight into the interviewees' social reality (Guba and Lincoln, 2005; Lundberg and Young, 2005). The findings represent the collective voice of the interviewees, as expressed in the interviews. In presenting the findings, multiple quotes are given on each topic/issue where a claim of representation is made. This ensures that the findings are transparent and can be evaluated (or critiqued) by others. However, these representations cannot be generalised to the population (Saunders et al., 2009). Instead, the findings generate understanding and explanation of how institutional logics shape the discourse on executive remuneration in the context of some NZ listed companies.

¹⁰⁰ Preliminary findings were published in Crombie (2010). This is reproduced in Appendix I.

4.7. Conclusion

The research investigates Zajac and Westphal's (2004) claim that there has been an ongoing institutional battle between Corporate Logic and Investor Logic. This has been played out in the discourses on long-term incentive plans (Zajac and Westphal, 1995), stock repurchase plans (Zajac and Westphal, 2004), and takeovers/takeover defences (Green et al., 2008). The discourse on executive remuneration is studied. First, a content analysis of codes and corporate annual reports is used to reveal how Corporate Logic and Investor Logic have diffused over time in the UK, AU and NZ. Second, discourse analysis of codes and corporate annual reports from the UK, AU and NZ is used to explore how Corporate Logic and Investor Logic shape the discourse on executive remuneration. Some insights into the substantive and symbolic nature of this discourse can also be uncovered. Third, qualitative interviews are used to collect data on how remuneration decisions are made and reported in NZ only. Unlike prior qualitative research on remuneration committees, these data are interpreted from an institutional logics perspective.

The research "tries to explore the ways in which the socially produced ideas and objects that populate the world are created and maintained" (Phillips, 2003, p.222). A key strength of this research is that multiple aspects of the discourse on executive remuneration are studied using multiple research methods. Consistent with an interpretive and constructivist methodology, this enables a coalescing view of social reality to be reconstructed (Guba and Lincoln, 2005; Lundberg and Young, 2005). However, one weakness of the research is that many aspects of this discourse are not studied. First, only six remuneration principles are coded. Other variables such as corporate objective, corporate governance principles and practices, non-executive directors' remuneration principles and practices, and executive remuneration practices are not coded from the full sample. Second, the discourse analysis focused on illustrating the heterogeneity in the sub-sample of texts. Third, organisational actors from AU and the UK are not interviewed. Due to these limitations, the research is exploratory. However, plenty of opportunities for future research are unlocked.

Chapter 5: The Diffusion of Corporate Logic and Investor Logic

5.1. Introduction

This chapter addresses Research Question 1: To what extent have Corporate Logic and Investor Logic become embedded in AU, NZ and UK organisational texts with respect to executive remuneration? There are several remuneration principles that are indicators of Corporate Logic and Investor Logic (see Chapter 3, Table 3.2). Corporate Logic is consistent with the human resources, market and fairness principles; whereas, Investor Logic is consistent with the agency, pay-for-performance and motivation principles. Further, the organisational texts that are studied include codes and corporate annual reports (see Chapter 4, Tables 4.3 and 4.4). Codes often include recommendations on executive remuneration and publicly listed companies are encouraged or required to comply with these recommendations. Corporate annual reports include remuneration policies and practices. Remuneration principles are found within this discourse on executive remuneration (see Chapter 3, Table 3.3). Thus, this chapter investigates the incidence of remuneration principles and, consequently, institutional logics in codes and corporate annual reports.

The chapter is organised as follows. The incidence of remuneration principles and institutional logics in codes and corporate annual reports from AU, NZ and the UK are analysed in Sections 2 and 3, respectively. Particular attention is given to codes that have multiple editions and companies that have been continuously listed in the period studied. The variability within the sample of organisational texts is highlighted. The analysis also examines if remuneration principles have become taken-for-granted; it is expected that once a remuneration principle is adopted, it will not be discarded later. Further, how the incidence of Corporate Logic and Investor Logic has changed over time in each country is studied. It is expected that the findings will be similar to Zajac and Westphal (2004), who found that during the late 1980s US companies transitioned from Corporate Logic to Investor Logic. In Section 4, the pattern of diffusion of the remuneration principles and institutional logics is described and then compared to Zajac and Westphal (2004). Finally, concluding comments are made in Section 5.

5.2. Corporate Governance Codes of Practice

This section presents descriptive statistics on the incidence of remuneration principles and institutional logics in codes from AU, NZ and UK. In total, 68 codes that were issued from 1991 to 2010 are studied including 28 codes from the UK, 24 codes from AU and 16 codes from NZ. Few codes were issued prior to the late-1990s in any of these countries, but many codes have been issued since including multiple editions. The sampled codes all include principles¹⁰¹ and/or recommendations on executive remuneration for publicly listed companies. There is an increasing incidence of remuneration principles in the sampled codes, although some codes such as AU's Bosch reports (1991, 1993, 1995) and NZX's Listing Rules (1994, 1999, 2003) include no remuneration principles. Using remuneration principles as indicators of Corporate Logic and Investor Logic, the findings show that both Logics are embedded in most codes.

Table 5.1 shows the incidence of remuneration principles in codes. The sampled codes are split into three time periods: 1992-1997; 1998-2006; and 2007-2010.¹⁰² The average number of remuneration principles present in codes has remained consistent over time in the UK and increased over time in AU, particularly from 1991 to 2006. While the average initially increased in NZ codes (from 1992 to 2006), the average slightly decreased in NZ codes in recent years. Typically, four or five remuneration principles are present in AU and UK codes, but only one or two remuneration principles are present in NZ codes. Aside from the general increase in incidence of remuneration principles, there are no discernable patterns of change between countries and over time. This is due to the small size of the sample. However, the incidence of the fairness and market principles is lower than the other remuneration principles in most codes. This may indicate that Investor Logic is stronger than Corporate Logic in the codes.

¹⁰¹ The use of the term 'principles' should not be confused with the six remuneration principles studied here. Codes are structured as follows: (1) Main principle, (2) Supporting principles or policies and (3) Recommendations that are based on the preceding principles. For example, one of the Securities Commission's (NZ, 2004b, p.2) principles is, "The remuneration of directors and executives should be transparent, fair, and reasonable." Note that the six remuneration principles studied here may be embedded in (or form part of) codes' principles and/or recommendations.

¹⁰² The three time periods are chosen to facilitate comparison with the corporate annual reports. The sample includes corporate annual reports from 1989 (UK only), 1998 and 2007. Splitting the codes into three time periods will show the incidence of the remuneration principles and institutional logics prior to the corporate annual reports being issued. This will partially evidence the extent to which codes influence corporate annual reports.

Table 5.1: Incidence of Remuneration Principles in Codes of Practice

Remuneration Principles	UK: 1992- 1997	UK: 1998- 2006	UK: 2007- 2010	AU: 1991- 1997	AU: 1998- 2006	AU: 2007- 2010	NZ: 1992- 1997	NZ: 1998- 2006	NZ: 2007- 2010
Human Resources	2	10	5	2	7	8		3	1
Market	3	7	3	1	5	6		2	1
Fairness	3	6	4	1	5	7		5	2
Agency	4	11	5	2	8	6		3	1
Pay-for-performance	5	13	6	2	7	8		7	4
Motivation	3	9	6	3	7	8		3	1
No. of codes of practice	5	14	7	6	9	9	1	10	5
Average (out of 6)	4.00	4.00	4.14	1.83	4.33	4.78	0.00	2.30	2.00
Median (out of 6)	4.00	4.00	4.00	1.50	4.00	5.00	0.00	1.50	1.00

There has been a proportional increase in incidence of most remuneration principles in codes over time. The human resources, motivation and pay-for-performance principles have been strongly present in most codes, except for the human resources and motivation principles in NZ 2007-2010 codes. Often the human resources and motivation principles are inseparable: Codes commonly state that remuneration practices can ‘attract, motivate and retain’ executives. The agency principle has often been present in most codes, but there has been a decrease in incidence in NZ between 1998-2006 and 2007-2010. The market and fairness principles have also been found in most codes, albeit to a lesser extent than the other remuneration principles. The incidence of fairness principle has declined in NZ between 1998-2006 and 2007-2010. Overall, Table 5.1 indicates that remuneration principles have been widely diffused in codes in the UK and AU, and partially diffused in codes in NZ.

Figure 5.1 shows the incidence of remuneration principles in UK codes that have multiple editions. This includes codes produced by the ABI (Association of British Insurers), the Financial Reporting Council, Hermes (Hermes Pension Fund Management Ltd) and official inquiries.¹⁰³ While there is a general increase in the incidence of remuneration principles, there are a few changes between editions of codes. The principles and recommendations in codes typically cover a broad range of issues rather than being focused on only executive remuneration. Only the Greenbury (1995) report focuses on directors’ remuneration. Most of Greenbury’s principles and recommendations on remuneration are adopted in the Financial Reporting Council’s *Combined Code*, and these were not changed between editions until

¹⁰³ The official inquiries included Cadbury (1992), Greenbury (1995), Hampel (1998), Higgs (2003) and Walker (2009). Only the official inquiries that included some investigation of executive remuneration are sampled. While the official inquiries were instigated by a variety of parties (e.g. Cadbury was instigated by the London Stock Exchange and the UK accounting profession, whereas Walker was instigated by the UK’s Prime Minister), each subsequent official inquiry refers to previous official inquiries. Also, the official inquiries are commonly grouped together (e.g. Jones and Pollitt, 2004; Solomon, 2008; Tricker, 2009).

2010. Curiously, the agency principle is dropped in the 2010 edition of the *Combined Code* (renamed, the *UK Corporate Governance Code*). On the whole, the incidence of remuneration principles varies between editions of codes because some codes (or some editions of codes) focus on executive remuneration (e.g. Greenbury), while other codes have limited discussion of executive remuneration (e.g. Hermes).

Figure 5.1: Incidence of Remuneration Principles in the UK's Codes

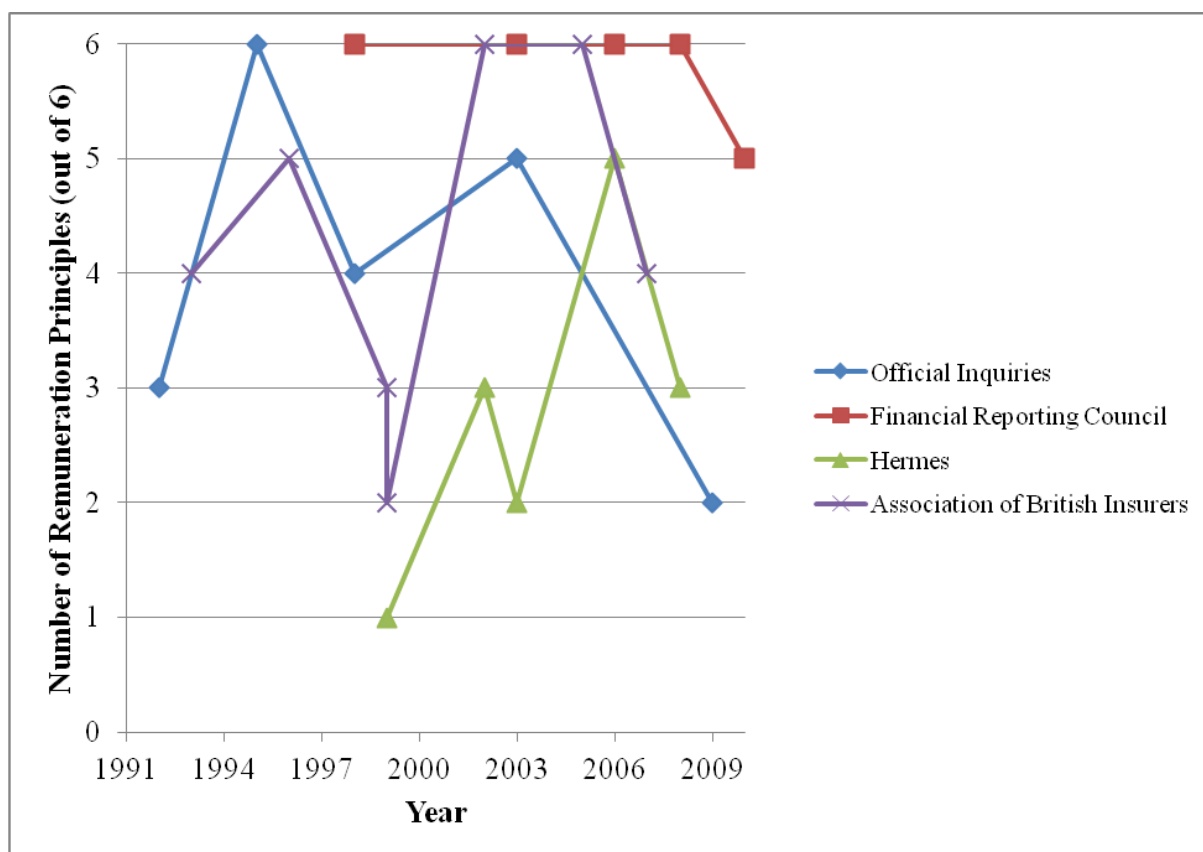


Figure 5.2 shows the incidence of remuneration principles in AU codes that have multiple editions.¹⁰⁴ There has been much stability as there are no changes in the codes of Bosch, Hilmer, and the ASX Corporate Governance Council (ASXCGC). However, there has been change in the codes of the Investment and Financial Services Association (IFSA; formerly, Australian Investment Managers' Association, AIMA), Australian Institute of Company Directors (AICD) and Australian Shareholders' Association (ASA). As with UK codes, the principles and recommendations in AU codes cover a broad range of issues. The number of remuneration principles present is related to the emphasis placed on remuneration; codes that

¹⁰⁴ The Productivity Commission (2009) report is also displayed in Figure 5.2 because it is dedicated solely to director and executive remuneration.

are general in nature or short in length use fewer remuneration principles. Further, codes that are issued by multiple organisations include more remuneration principles than other codes, such as the *Executive Share and Option Scheme Guidelines* (2000) and *Executive Equity Plan Guidelines* (2007) jointly issued by IFSA, AICD and ASA.

Figure 5.2: Incidence of Remuneration Principles in AU's Codes

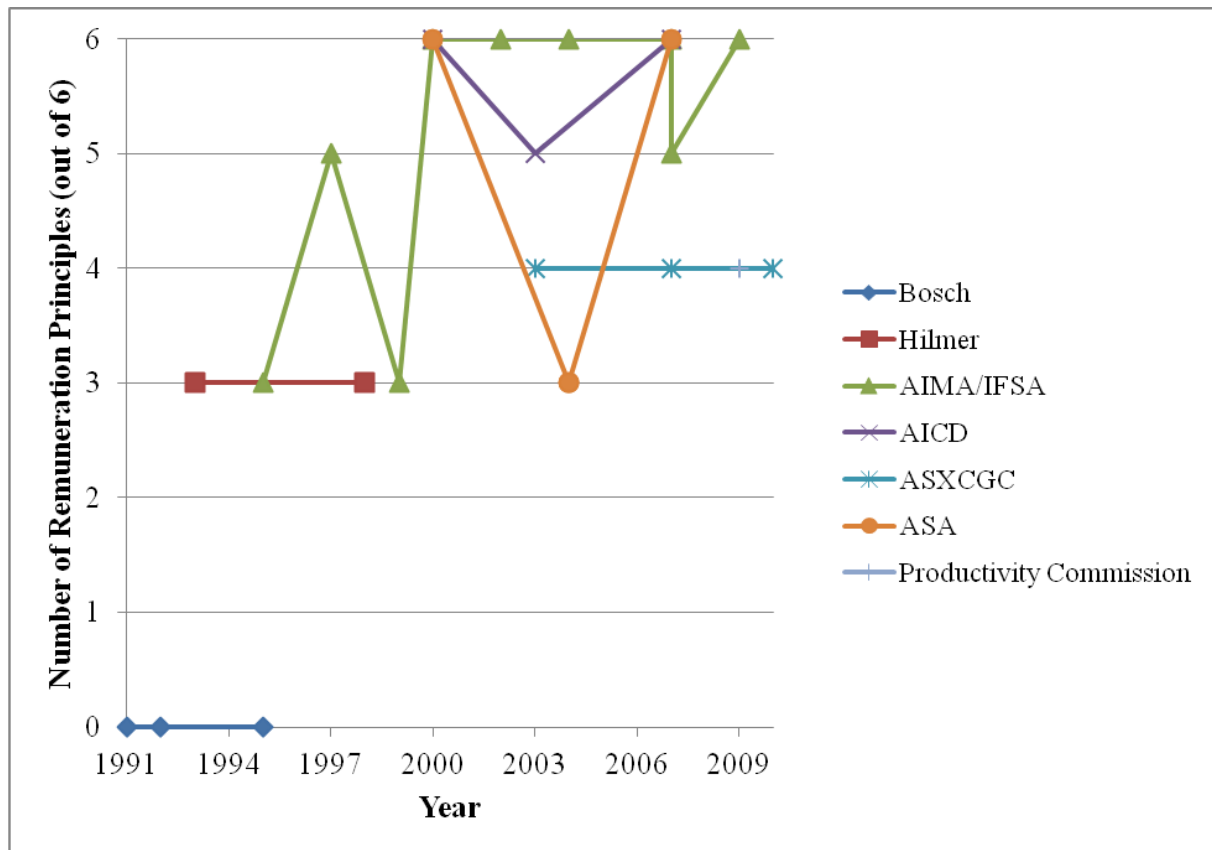


Figure 5.3 shows the incidence of remuneration principles in NZ codes that have multiple editions.¹⁰⁵ There has been much stability as there are no changes in the codes of the Institute of Directors in New Zealand and MinterEllison (an Australasian-based law firm). The NZX's listing rules do not contain remuneration principles, but their *Corporate Governance Code* does include the pay-for-performance principle. This code has not changed over time with respect to executive remuneration. Further, there is only one edition of the Securities Commission's Code; the other two data points relate to reports issued by the Securities Commission on companies' voluntary compliance with its Code. There are fewer remuneration principles in the second report because it does not repeat the code's principles,

¹⁰⁵ The NZSA (New Zealand Shareholders' Association) (2004) discussion document is also displayed in Figure 5.3 because it is dedicated solely to executive remuneration.

while the first report does. Similar to AU and UK codes, NZ codes that contain limited discussion of executive remuneration use fewer remuneration principles. Note that the code with the most discussion of executive remuneration is the NZSA (2004).

Figure 5.3: Incidence of Remuneration Principles in NZ's Codes

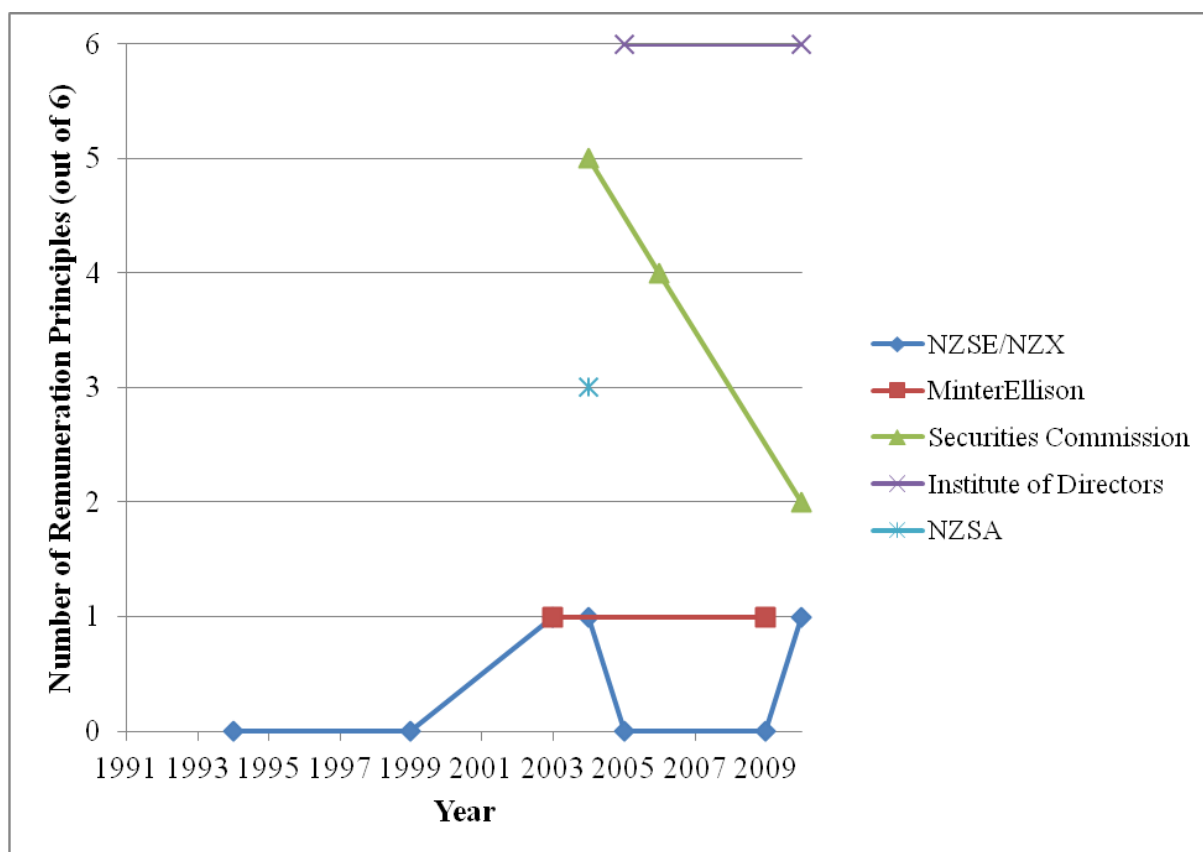


Table 5.2 shows the incidence of Corporate Logic and Investor Logic in codes.¹⁰⁶ Both Logics are present in most codes (UK: 81%; AU: 79%; NZ: 44%) followed by Investor Logic only (UK: 19%; AU: 8%; NZ: 25%) and no Logic (UK: 0%; AU: 13%; NZ: 31%). None of the codes include Corporate Logic only. The presence of both Logics has become stronger over time in AU and UK codes, whereas recent NZ codes still furnish instances in which no Logic is included or only Investor Logic is included. As shown in the lower half of Table 5.2, there is often a balance between both Logics (UK: 48%; AU: 58%; NZ: 86%), followed by Investor Logic being stronger than Corporate Logic (UK: 33%; AU: 26%; NZ: 14%) and Corporate Logic being stronger than Investor Logic (UK: 19%; AU: 16%; NZ: 0%). On the

¹⁰⁶ Corporate Logic is assumed to be present in a code if one or more of the following remuneration principles are present: The human resources, market and fairness principles; whereas Investor Logic is assumed to be present in a code if one or more of the following remuneration principles are present: The agency, pay-for-performance and motivation principles. These assumptions are appropriate because the remuneration principles are closely tied to various institutional logics (see Chapter 3, Table 3.2).

whole, Investor Logic is stronger than Corporate Logic because codes are often produced in response to jolts such as corporate scandals (see Section 5.4).

Table 5.2: Incidence of Institutional Logics in Codes

Institutional Logic	UK: 1992- 1997	UK: 1998- 2006	UK: 2007- 2010	AU: 1991- 1997	AU: 1998- 2006	AU: 2007- 2010	NZ: 1992- 1997	NZ: 1998- 2006	NZ: 2007- 2010
Neither Logic				3			1	3	1
Corporate Logic ¹									
Investor Logic ²	1	4		1	1			2	2
Both Logics	4	10	7	2	8	9		5	2
No. of codes of practice	5	14	7	6	9	9	1	10	5
Both Logics³									
Corporate Logic stronger than Investor Logic	1	1	2	1	1	1			
Investor Logic stronger than Corporate Logic	2	3	2	1	3	1		1	
Both Logics are equal in strength	1	6	3		4	7		4	2
Notes: 1 Corporate Logic is measured by the presence of one or more of the following remuneration principles in a code: Human Resources, Market and Fairness. If remuneration principles related to Investor Logic are also present in a code, then both Logics are present. 2 Investor Logic is measured by the presence of one or more of the following remuneration principles in a code: Agency, Pay-for-performance and Motivation. There are six remuneration principles in total, with three related to both Corporate Logic and Investor Logic. If there is an imbalance of remuneration principles related to these logics, then one Logic is stronger (or more dominant) than the other logic. For example, if a code includes the Human Resources, Market and Pay-for-performance principles, then Corporate Logic is stronger than Investor Logic. There are three possibilities when both Logics are present in a code: Corporate Logic stronger than Investor Logic; Investor Logic stronger than Corporate Logic; or both Logics are equal in strength.									

Table 5.3 shows how the incidence of Corporate Logic and Investor Logic in codes changes between editions. The first half of Table 5.3 shows most codes include Investor Logic only or both Logics and this does not change between editions. This indicates that there is relative stability in the incidence of both Logics in codes. The second half of Table 5.3 shows that the codes that have changed between editions have oscillated between Investor Logic and both Logics in the UK, and between no Logic and Investor Logic in NZ. However, the oscillation in the NZX's codes is misleading because the bulk of discussion on executive remuneration is contained in their *Corporate Governance Code*, not the *Listing Rules*. There is no change in the NZX's *Corporate Governance Code* over time with respect to executive remuneration. This means that there is stability in the incidence of Investor Logic in the NZX's codes. Similarly, there has been no change in AU codes. Thus, Investor Logic is present in most codes. Also, recommendations on executive remuneration included in the first edition of a code are rarely changed in subsequent editions.

Table 5.3: Change in Incidence of Institutional Logics in Codes

Change in Institutional Logic	UK	AU	NZ
<i>No Change</i>			
Neither Logic		Bosch's Corporate Practices and Conduct (Bosch) (1991; 1993; 1995)	
Investor Logic		Hilmer's Strictly Boardroom (Hilmer) (1993; 1998)	MinterEllisonRuddWatts (MERW) (2003; 2009)
Both Logics	Financial Reporting Council's (FRC) Combined Code (1998, 2003, 2006, 2008, 2010)	Investment and Financial Services Association (IFSA; formerly, Australian Investment Managers' Association, AIMA) (1995; 1997; 1999; 2000; 2002; 2004; 2007a, b; 2009) ² Australian Institute of Company Directors (AICD) (2000; 2003; 2007) ² Australian Stock Exchange's Corporate Governance Council (ASXCGC) (2003; 2007; 2010) Australian Shareholders' Association (ASA) (2000; 2004a,b; 2007) ²	Securities Commission (SecCom) (2004b; 2006; 2010) Institute of Directors in New Zealand (IODNZ) (2005; 2010)
<i>Change</i>			
From Both Logics to Investor Logic	Official reports (Cadbury, 1992; Greenbury, 1995; Hampel, 1998; Higgs, 2003; Walker, 2009) ¹		
Oscillating between Investor Logic and Both Logics	Association of British Insurers (ABI) (1993; 1996; 1999a,b; 2002; 2005; 2007) Hermes Investment Management Limited (Hermes) (1999; 2002; 2003; 2006; 2008)		
Oscillating between no Logic and Investor Logic			New Zealand Stock Exchange Limited (NZX) (1994; 1999; 2003; 2004; 2005; 2009; 2010)

Notes:

- 1 All of the official reports except Walker (2009) include both Logics. While Walker's (2009) recommendations are based on Investor Logic, FRC's Combined Code (which includes both Logics) is also endorsed.
- 2 The 2000 and 2007 editions of these codes are jointly issued by IFSA, AICD and ASA.

The content analysis of the codes shows that the incidence of the remuneration principles has increased over time in the UK, AU and NZ. In general, once a remuneration principle is included in the first edition of a code, it will remain in the subsequent editions of the code. While all of the remuneration principles are present in most codes, there is a lower incidence of the market and fairness principles than the other remuneration principles in the codes. The fairness and market principles are the most likely to be dropped or added between editions of codes. As aforementioned, different remuneration principles are used as an indicator of Corporate Logic and Investor Logic. The findings indicate that Investor Logic has been deeply embedded in the first edition of most codes. Corporate Logic is also embedded in many of the codes, but only in combination with Investor Logic.

5.3. Corporate Annual Reports

This section presents descriptive statistics on the incidence of remuneration principles and institutional logics in corporate annual reports from AU, NZ and the UK. Two samples of corporate annual reports are studied. The first sample includes 350 corporate annual reports that were published in 1989 (UK only), 1998 and 2007 by the largest 50 publicly listed companies in the UK, AU and NZ.¹⁰⁷ The second sample includes 382 corporate annual reports that were published in 1989 (UK only), 1998 and 2007 by the largest publicly listed companies that were continuously listed.¹⁰⁸ While the sampled corporate annual reports included varying amounts of disclosure on executive remuneration, there is an increasing incidence of remuneration principles. Using remuneration principles as indicators of Corporate Logic and Investor Logic, the findings show that both Logics are present in most corporate annual reports.

Based on the first sample, Table 5.4 shows the incidence of remuneration principles in annual reports of the largest 50 publicly listed companies in the UK, AU and NZ. The median usage of the six remuneration principles increased from zero in 1989 to five in 1998 in the UK, from two in 1998 to five in 2007 in AU, and from zero in 1998 to two in 2007 in NZ. These findings indicate that there has been an unambiguous increase in the incidence of all six

¹⁰⁷ Largest is measured by market capitalisation on 31 December (or thereabouts). Only UK companies' 1989 annual reports are sampled because AU and NZ companies' 1989 annual reports are near impossible to obtain and regulations at the time did not require AU and NZ companies to disclose any information about executive remuneration. See Chapter 4, Table 4.4 for further details.

¹⁰⁸ The histories of the largest 50 publicly listed companies from 2007 were traced back to 1998 for AU and NZ companies and to 1989 for UK companies. The sample only includes those companies that are continuously listed during these periods, although some companies changed as a result of mergers and acquisitions. Thus, this is a matched or paired sample. See Chapter 4, Table 4.4 for further details.

remuneration principles over time. By 2007 in the UK and AU, five out of six remuneration principles are present in at least 86% of the corporate annual reports. In contrast, by 2007 in NZ, only the human resources and pay-for-performance principles are present in more than 50% of the corporate annual reports.

Table 5.4: Incidence of Remuneration Principles in Annual Reports of Largest 50 Publicly Listed Companies

Remuneration Principles	UK: 1989	UK: 1998	UK: 2007	AU: 1998	AU: 2007	NZ: 1998	NZ: 2007
Human Resources	4	45	48	27	46	6	27
Market	3	46	50	29	50	6	19
Fairness	3	7	18		33		11
Agency	1	34	44	11	45	3	16
Pay-for-performance	4	48	48	28	50	11	33
Motivation	8	42	45	18	40	3	16
No. of companies	50	50	50	50	50	50	50
Average (out of 6)	0.46	4.44	5.06	2.26	5.28	0.58	2.44
Median (out of 6)	0.00	5.00	5.00	2.00	5.00	0.00	2.00

While these findings do not pinpoint when the increase in incidence of the remuneration principles occurred, the change probably occurred after the issuance of Greenbury's (1995) *Report on Director's Remuneration* in the UK and ASXCGC's (2003) *Principles of Good Corporate Governance and Best Practice Recommendations* in AU. Both codes were incorporated into the listing rules of each country's stock exchange and companies had to report their compliance with these codes or explain why they did not comply. Also, these codes included many remuneration principles. It is likely that companies copied the language of the codes in drafting their remuneration reports.¹⁰⁹ In contrast, there are few remuneration disclosure requirements in NZ, which explains why the increase in incidence of remuneration principles in the annual reports of NZ companies has been much less dramatic than in the UK and AU (see Chapter 4, Section 4.2 and Chapter 7, Section 7.2).

As shown in Table 5.4, the incidence of the human resources, market and fairness principles have all increased over time in the annual reports of UK, AU and NZ companies. Collectively, these remuneration principles claim that executives are talented and should be remunerated at levels comparable to other executives. While the increase is comparable and

¹⁰⁹ For example, after the Greenbury (1995) Report was issued, a reporter for the Financial Times, Jim Kelly commented that, "Greenbury requires a statement of remuneration policy and E&Y found that the dreaded accountants' disease – known as "boilerplate" – had taken hold. Time and time again, companies' rewards policy was designed to "attract, retain and motivate", a phrase hijacked from the Greenbury report itself" (Kelly, 4 July 1996).

to near saturation for the human resources and market principles, the increase has been much lower for the fairness principle. The incidence of the fairness principle in AU annual reports is much higher than UK and NZ annual reports because one of ASXCGC's (2003, p.11) principles is to "Remunerate fairly and responsibly" and this phrase is repeated in many AU corporate annual reports. However, this usage of the fairness principle is shallow because fairness is not defined in ASXCGC (2003) or in most AU corporate annual reports.

As also shown in Table 5.4, the incidence of the agency, pay-for-performance and motivation principles have all increased over time in the annual reports of UK, AU and NZ companies. Collectively, these remuneration principles indicate that in the absence of financial incentives, executives would not be motivated and their interests would not be aligned with those of shareholders. In the UK and AU, these remuneration principles are found in almost all 2007 corporate annual reports. The pay-for-performance principle is present in the annual reports of many NZ companies, but the agency and motivation principles are not. NZ companies disclose few details about the CEO's remuneration package and, consequently, use fewer remuneration principles because the mandatory disclosure requirements are minimal, unless the CEO is also a director.

Table 5.5 shows the total number of remuneration principles in annual reports of UK, AU and NZ companies. A dramatic change from 1989 to 1998 in the UK and from 1998 to 2007 in AU is apparent as most companies began using multiple remuneration principles. By 2007, there are few UK and AU companies that use less than four remuneration principles. The change amongst NZ companies is considerable from 1998 to 2007, but muted in comparison to that in the UK and AU. By 2007, most NZ companies use a range of remuneration principles, but there are still eight that use no remuneration principles at all. While UK and AU companies have clearly transitioned from very low to very high usage of the six remuneration principles, NZ companies may still be in the process of doing so.

Table 5.5: Number of Remuneration Principles in Annual Reports of Largest 50 Publicly Listed Companies

Number of Remuneration principles	UK: 1989	UK: 1998	UK: 2007	AU: 1998	AU: 2007	NZ: 1998	NZ: 2007
0	37	0	0	13	0	37	8
1	6	0	0	5	0	6	11
2	4	2	1	9	0	1	8
3	3	6	0	6	2	4	9
4	0	15	8	13	6	1	6
5	0	22	27	4	18	1	4
6	0	5	14	0	24	0	4
No. of companies	50	50	50	50	50	50	50

The findings presented in Tables 5.6 and 5.7 examine possible reasons why remuneration principles have become widely diffused by 2007. First, institutional pressure is considered. To demonstrate compliance with codes, companies will adopt remuneration principles that are found in codes (see Chapter 3, Section 3.3). Companies that are listed on stock exchanges in multiple countries will be subject to greater institutional pressure than companies that are listed on one stock exchange because each jurisdiction has a different set of mandatory and voluntary codes. Second, the change in composition of the sample is considered. The largest 50 companies vary considerably between time periods. The largest 50 companies in 2007 may also have used many remuneration principles in 1998 or 1989. Thus, the incidence of the remunerations principles in the sample of continuously publicly listed companies is examined (see Section 5.3.2.). This will show the extent to which the incidence of the remuneration principles changes over time for each company.

Table 5.6: Influence of the Number of Stock Exchange Listings on the Incidence of Remuneration Principles in Annual Reports of the Largest 50 Publicly Listed Companies

Remuneration Principles	UK: 1998			UK: 2007			AU: 1998			AU: 2007			NZ: 1998			NZ: 2007		
	1	2+	Sig.	1	2+	Sig.	1	2+	Sig.	1	2+	Sig.	1	2+	Sig.	1	2+	Sig.
Human Resources	20	25		10	38		11	16		27	19		1	5	*	9	18	*
Market	20	26		10	40		11	18		31	19		2	4	*	2	17	*
Fairness	1	6	*	2	16	*	0	0		21	12		0	0		3	8	*
Agency	13	21		8	36		3	8		27	18		0	3	*	7	9	
Pay-for-performance	21	27		10	38		9	19		31	19		1	10	*	16	17	*
Motivation	19	23		10	35	*	10	8	*	24	16		0	3	*	4	12	*
No. of Companies	22	28		10	40		20	30		31	19		34	16		29	21	
Average (out of 6)	4.27	4.57		5.00	5.08		2.20	2.30		5.19	5.42		0.12	1.56	*	1.41	3.86	*
Median (out of 6)	4.50	5.00		5.00	5.00		2.00	2.00		5.00	5.00		0.00	1.00	*	1.00	4.00	*

Note: Based on the first sample, the table reports the incidence of remuneration principles in the annual reports of the largest 50 companies. These companies are divided into two groups: A '1' refers to companies that are listed on only one stock exchange; and a '2+' refers to companies that are listed on multiple stock exchanges. Using an independent sample test (t-test), the difference between means of companies listed on one and multiple stock exchanges is calculated. A '*' in the Significance ('Sig.') column indicates that there is a statistically significant difference in means at the 95% confidence level ($p < 0.05$). The t-statistics are not reported in the table.

Table 5.7: Incidence of Remuneration Principles in Annual Reports of the Largest Continuously Publicly Listed Companies

Remuneration Principles	UK: From 1989 to 1998			UK: From 1998 to 2007			AU: From 1998 to 2007			NZ: From 1998 to 2007		
	1989	1998	Sig.	1998	2007	Sig.	1998	2007	Sig.	1998	2007	Sig.
Human Resources	3	31	*	40	46		23	43	*	5	23	*
Market	1	36	*	45	48		26	46	*	4	16	*
Fairness	3	7		8	18	*	0	29	*	0	9	*
Agency	0	25	*	31	42	*	10	40	*	5	14	*
Pay-for-performance	2	35	*	44	46		27	46	*	12	27	*
Motivation	3	28	*	38	43		16	37	*	4	13	*
No. of Companies	38	38		48	48		46	46		39	39	
Average (out of 6)	0.33	4.26	*	4.29	5.06		2.22	5.24	*	0.77	2.62	*
Median (out of 6)	0.00	5.00	*	5.00	5.00		2.00	5.00	*	0.00	3.00	*

Note: The results reported in the table are based on a sub-sample of companies from the second sample. Only those companies that did not merge with or acquire any other publicly listed companies during the period studied are included in this sub-sample. This yields a matched or paired sample. The table reports the incidence of remuneration principles in the annual reports of the largest continuously listed companies. Using an independent sample test (t-test), the difference between means of companies from different time periods is calculated. A '*' in the Significance ('Sig.') column indicates that there is a statistically significant difference in means at the 95% confidence level ($p < 0.05$). The t-statistics are not reported in the table.

Table 5.6 shows the extent to which the number of stock exchange listings influences the incidence of remuneration principles in the annual reports of companies. There are few statistically significant differences between UK and AU companies that are listed on one or multiple stock exchanges. As there are many UK and AU codes that contain many remuneration principles, it is likely that codes from other jurisdictions will not add to institutional pressure in each country. In contrast, there are many statistically significant differences between NZ companies that are listed on one or multiple stock exchanges. There are statistically significant differences between the two groups across most remuneration principles in both 1998 and 2007. These findings show that those NZ companies that are also listed on the ASX or LSE adopt statistically significantly more remuneration principles than those that are only listed on the NZX.

Based on the second sample,¹¹⁰ Table 5.7 shows that the median usage of remuneration principles in the annual reports of continuously listed companies increased from zero to five in UK companies between 1989 and 1998, from two to five in AU companies between 1998 and 2007, and from zero to three in NZ companies between 1998 and 2007. By 2007, most UK and AU companies use all remuneration principles except for the fairness principle, while many NZ companies use several remuneration principles. Consistent with previous findings in this chapter, the human resources, market and pay-for-performance principles are the most widely diffused amongst UK, AU and NZ companies. Therefore, the change in composition of the sample of the largest 50 companies over time is not related to the change in incidence of the remuneration principles.

Table 5.8 shows the number of remuneration principles dropped or added between time periods in annual reports of the continuously listed companies.¹¹¹ This indicates that remuneration principles have been added by most companies, but dropped by few companies over time. The most likely remuneration principles to be dropped in all countries are the motivation and agency principles. All remuneration principles have been added by many AU and NZ companies between 1998 and 2007. Further, all remuneration principles (except fairness principle) have been added by many UK companies between 1989 and 1998, whereas

¹¹⁰ The results reported are based on a sub-sample of companies from the second sample. Only those companies that did not merge with or acquire any other publicly listed companies during the period studied are included in this sub-sample. This yields a matched or paired sample, which enables direct comparisons between companies to be made.

¹¹¹ The results reported are based on a sub-sample of companies from the second sample. Refer to Footnote 108.

agency and fairness have been added by a quarter of UK companies between 1998 and 2007.¹¹² Overall, these findings show that once adopted, remuneration principles are rarely dropped by companies.

Table 5.8: Number of Remuneration Principles Dropped or Added between Time Periods in Annual Reports of the Largest Continuously Publicly Listed Companies

Change	UK: From 1989 to 1998	UK: From 1998 to 2007	AU: From 1998 to 2007	NZ: From 1998 to 2007
<i>Dropped</i>				
Human Resources	0	1	1	0
Market	0	0	0	0
Fairness	3	2	0	0
Agency	0	3	2	2
Pay-for-performance	0	1	0	1
Motivation	1	3	3	2
No. of companies that dropped one or more	4 (11%)	10 (21%)	4 (9%)	2 (5%)
Average no. of remuneration principles dropped per company	1.00	1.00	1.50	2.50
<i>Added</i>				
Human Resources	28	7	21	18
Market	35	3	20	12
Fairness	7	12	29	9
Agency	25	14	32	11
Pay-for-performance	33	3	19	16
Motivation	26	8	24	11
No. of companies that added one or more	38 (100%)	27 (56%)	44 (96%)	29 (74%)
Average no. of remuneration principles added per company	4.05	1.74	3.30	2.66
Total no. of companies	38	48	46	39
Note: The results reported in the table are based on a sub-sample of companies from the second sample. Only those companies that did not merge with or acquire any other publicly listed companies during the period studied are included in this sub-sample. This yields a matched or paired sample.				

Using remuneration principles as indicators of institutional logics, Table 5.9 shows the incidence of Corporate Logic and Investor Logic in annual reports of the largest 50 companies. The first half of Table 5.9 shows that no Logic is present in annual reports of 74% of UK companies in 1989, 26% of AU companies in 1998 and 74% of NZ companies in 1998. By 2007, institutional logics are present in annual reports of 98% of UK companies, 100% of AU companies and 54% of NZ companies. Corporate Logic only and Investor Logic

¹¹² For UK companies, the average number of remuneration principles added per company is 4.05 from 1989 to 1998 and 1.74 from 1998 to 2007. There is a significant decrease because most UK companies in 1998 already used all or almost all of the remuneration principles.

only are rarely present in annual reports of companies in all time periods, except that Investor Logic only is present in annual reports of 24% of NZ companies in 2007.

The relative strength of Corporate Logic and Investor Logic when both Logics are present in corporate annual reports is analysed in the second half of Table 5.9. The findings indicate that there is often a balance between Corporate Logic and Investor Logic, i.e. an equal number of remuneration principles related to both Logics are present in corporate annual reports. Amongst UK and AU companies, a balance of Corporate Logic and Investor Logic is as likely as Investor Logic being stronger than Corporate Logic. Amongst NZ companies, all three possibilities are equally likely. On the whole, Corporate Logic being stronger than Investor Logic does not occur as frequently amongst all companies over time. Therefore, consistent with the findings from the codes, Investor Logic is deeply embedded in corporate annual reports, while Corporate Logic is often only embedded in combination with Investor Logic.

Table 5.9: Incidence of Institutional Logics in Annual Reports of Largest 50 Publicly Listed Companies

Institutional Logic	UK: 1989	UK: 1998	UK: 2007	AU: 1998	AU: 2007	NZ: 1998	NZ: 2007
Neither Logic	37			13		37	8
Corporate Logic ¹	4		1	4		2	3
Investor Logic ²	6			2		6	12
Both Logics	3	50	49	31	50	5	27
No. of companies	50	50	50	50	50	50	50
Both Logics³							
Corporate Logic stronger than Investor Logic	1	2	3	4	8	2	8
Investor Logic stronger than Corporate Logic	2	27	25	7	14	2	9
Equal strength of Corporate Logic and Investor Logic		21	21	20	28	1	10
Notes: 1 Corporate Logic is measured by the presence of one or more of the following remuneration principles in a company's annual report: Human Resources, Market and Fairness. If remuneration principles related to Investor Logic are also present in a company's annual report, then both Logics are present. 2 Investor Logic is measured by the presence of one or more of the following remuneration principles in a company's annual report: Agency, Pay-for-performance and Motivation. 3 There are six remuneration principles in total, with three related to both Corporate Logic and Investor Logic. If there is an imbalance of remuneration principles related to these Logics, then one Logic is stronger (or more dominant) than the other Logic. For example, if a company's annual report includes the Human Resources, Market and Pay-for-performance principles, then Corporate Logic is stronger than Investor Logic. There are three possibilities when both Logics are present in a company's annual report: Corporate Logic stronger than Investor Logic; Investor Logic stronger than Corporate Logic; or equal strength of Corporate Logic and Investor Logic.							

Table 5.10 shows the change in incidence of institutional logics in annual reports of the largest continuously listed companies. Most of the change that has occurred has been from no Logic to both Logics. There are several anomalous examples of Corporate Logic only: Associated British Foods (UK) and Antofagasta (UK) changed from no Logic in 1989 to Corporate Logic only in 1998, and Antofagasta remained classified as Corporate Logic only in 2007; Tourism Holdings (NZ) changed from no Logic in 1998 to Corporate Logic only in 2007; and BIL International (NZ) changed from Investor Logic only in 1998 to Corporate Logic only in 2007. There are also several NZ companies that use Investor Logic only in 2007. These examples are discussed in Chapter 6. Further, companies that used both Logics in an earlier time period continued to use both Logics in latter timer periods. As a result, there was no change amongst many AU and UK companies. Overall, both Logics have been embedded in most annual reports of AU, NZ and UK companies by 2007.

Table 5.10: Change in Incidence of Institutional Logics in Annual Reports of Largest Continuously Publicly Listed Companies

Change in Institutional Logic	UK: From 1989 to 1998	UK: From 1998 to 2007	AU: From 1998 to 2007	NZ: From 1998 to 2007
<i>No Change</i>				
Neither Logic				7 (18%)
Corporate Logic		1 (2%)		
Investor Logic				2 (3%)
Both Logics	2 (5%)	45 (94%)	28 (61%)	5 (13%)
<i>From Corporate Logic to...</i>				
Both Logics	3 (8%)	1 (2%)	5 (11%)	
<i>From Investor Logic to...</i>				
Corporate Logic				1 (3%)
Both Logics	2 (5%)	1 (2%)	3 (7%)	4 (11%)
<i>From No Logic to...</i>				
Corporate Logic	2 (5%)			1 (3%)
Investor Logic				5 (13%)
Both Logics	29 (76%)		10 (22%)	14 (36%)
No. of Companies	38 (100%)	48 (100%)	46 (100%)	39 (100%)
Note: The results reported in the table are based on a sub-sample of companies from the second sample. Only those companies that did not merge with or acquire any other publicly listed companies during the period studied are included in this sub-sample. This yields a matched or paired sample.				

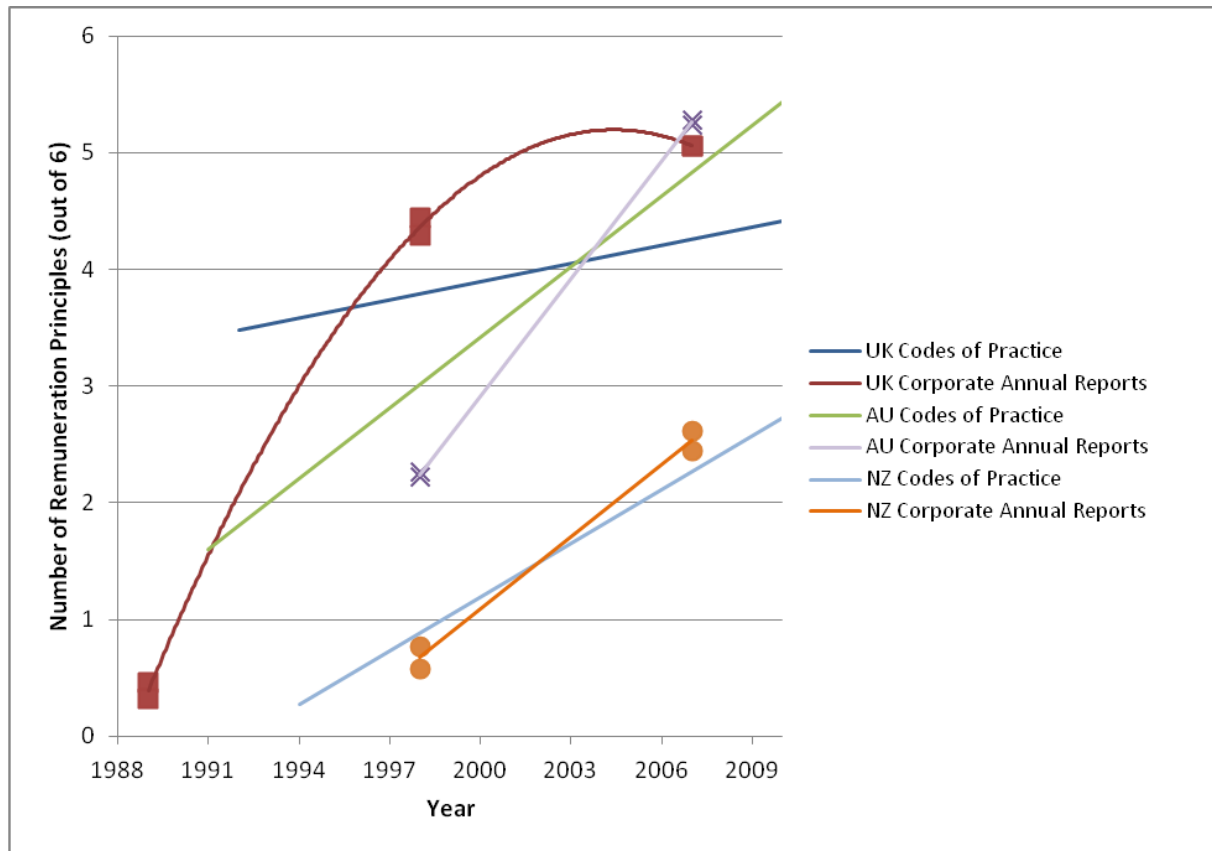
The content analysis of the two samples of corporate annual reports shows that the incidence of the remuneration principles has increased over time in the UK, AU and NZ. In general, once a remuneration principle is included in a corporate annual report, it will remain in the subsequent corporate annual reports. The human resources, pay-for-performance and motivation principles are present in almost all corporate annual reports, whereas the market, agency and motivation principles are present in most corporate annual reports. As

aforementioned, different remuneration principles are used as an indicator of Corporate Logic and Investor Logic. The findings indicate that Investor Logic has been deeply embedded in most corporate annual reports, particularly in 2007. Corporate logic is also embedded in many of corporate annual reports, but often only in combination with Investor Logic.

5.4. Diffusion of the Remuneration Principles and Institutional Logics

Figure 5.4 illustrates the incidence of remuneration principles in codes and corporate annual reports from the UK, AU and NZ. There is greater average incidence of remuneration principles in codes issued prior to 1998 than in 1998 corporate annual reports. This supports the proposition that companies respond to institutional pressures by adopting remuneration principles found in codes. Companies do this to demonstrate conformance with societal expectations. By 2007, the incidence of remuneration principles in corporate annual reports exceeded that in codes. An increased incidence of remuneration principles has been most pronounced in the UK between 1989 and 1998, in AU and NZ between 1998 and 2007. However, the average incidence of remuneration principles in NZ lags behind the average incidence in the UK and AU because there are relatively few NZ codes and most have been issued more recently. Overall, the remuneration principles have been very widely diffused in the UK and AU, but only partially diffused in NZ.

Figure 5.4: Incidence of Remuneration Principles in Codes and Corporate Annual Reports from the UK, AU and NZ between 1989 and 2010



There are four possibilities: No Logic, Corporate Logic only, Investor Logic only, and both Logics (see Chapter 2). The findings presented in this chapter indicate that there has been a transition from no Logic to both Logics between 1989 and 2007. The transition occurred in the UK by 1998 and in AU by 2007. A transition has also occurred in NZ, but to a much lesser extent than in the UK and AU. It may be that both Logics do not become widely diffused in NZ. Further, the findings also indicate that Investor Logic is more deeply embedded than Corporate Logic in codes and corporate annual reports. In this respect, the findings are partially consistent with Zajac and Westphal (2004), although there is no transition from Corporate Logic to Investor Logic. However, the findings presented in this chapter do not indicate why both Logics have become embedded in codes and corporate annual reports.

5.5. Conclusion

All remuneration principles are widely diffused in codes and corporate annual reports from the UK, AU and NZ, but the level of diffusion is much lower in NZ than in the UK and AU. The incidence of the human resources and pay-for-performance principles is the highest in codes and corporate annual reports, followed by the market, agency and motivation principles. The fairness principle has the lowest incidence, particularly in corporate annual reports. This indicates that the version of Corporate Logic embedded in most codes and corporate annual reports is less concerned with vertical equity (i.e. fairness to employees) and more concerned with horizontal equity (i.e. fairness to executives) when deciding executive remuneration. The findings also indicate that Investor Logic is deeply embedded in most codes and corporate annual reports.

How both Logics are able to co-exist in organisational texts is problematic given that Corporate Logic and Investor Logic have opposing implications for corporate governance and executive remuneration (see Chapter 2, Table 2.3 and Chapter 3, Tables 3.2 and 3.5). It may be that one or both Logics are used symbolically in organisational texts. This would resolve the tension between the Logics as only one or no Logic would be driving the underlying organisational behaviour. Alternatively, Corporate Logic and Investor Logic may have merged into a new logic. This may be possible as the fairness principle is deemphasised. However, there may be inherent tension in this new Logic, particularly if how much other executives are being paid is changing at a different rate to firm performance. Thus, Chapter 6 investigates in greater depth how Corporate Logic and Investor Logic are embedded in codes and corporate annual reports.

This chapter also studied the timing of diffusion. In the UK, diffusion occurred between 1989 and 1998 with the Greenbury (1995) report being the likely catalyst for change. In AU, diffusion occurred between 1998 and 2007 with the ASXCGC's (2003) code being the likely catalyst for change, although diffusion was well underway before 2003. In NZ, there does not appear to have been any code that has been a catalyst for change, which explains why the remuneration principles are not as widely diffused. But NZ companies listed on multiple stock exchanges have experienced greater diffusion. However, these findings provide only limited insight into the process of diffusion that has occurred in the UK, AU and NZ. The process by which Corporate Logic and Investor Logic have become embedded in organisational texts is discussed in Chapter 8.

Chapter 6: Institutional Logics and Discourse on Executive Remuneration

6.1. Introduction

This chapter addresses Research Question 2: How, if at all, have Corporate Logic and Investor Logic influenced how executive remuneration has been conceptualised in AU, NZ and UK organisational texts? The discourse analysis reveals that both Logics were embedded in the discourse because the remuneration principles (except the fairness principle) were tied to various executive remuneration practices. Both Logics were able to co-exist in the discourse because Corporate Logic had been weakened (as the fairness principle was almost never tied to any executive remuneration practices). Further, there was a standard remuneration package for executives that became increasingly complex and more heavily justified over time. Code issuers and companies argued that executives were capable of maximising shareholder value, but only if boards of director implemented short- and long-term incentive schemes to control and direct them. Simpler packages and alternative justifications no longer appeared to be legitimate. This is consistent with Investor Logic being stronger than Corporate Logic. However, the complexity in the discourse also meant that almost any executive remuneration practice could be justified, particularly if the justifications were symbolic.

While Chapter 5's findings are based on a content analysis of a large sample of codes and corporate annual reports, Chapter 6's findings are based on a discourse analysis of a small sample of texts (a sub-sample of the large sample).¹¹³ Drawing on interpretive structuralism (Phillips and Hardy, 2002; Phillips and Di Domenico, 2009), the discourse on executive remuneration is explored in two ways. First, the range of executive remuneration practices contained within the sub-sample is studied in Section 2. Examples from codes and corporate annual reports are presented to illustrate the differences between Corporate Logic and

¹¹³ The sub-sample was purposefully chosen based on Chapter 5's findings. It includes 55 codes produced between 1991 and 2010 by four UK code issuers, six AU code issuers and four NZ code issuers, as well as 75 corporate annual reports produced in 1989, 1998 and 2007 by eleven UK companies, nine AU companies and thirteen NZ companies. However, the sub-sample contained a narrower range of executive remuneration practices than in the full sample. Thus, some examples in this chapter are drawn from the full sample, not the sub-sample. All examples from outside of the sub-sample are noted as such in the footnotes. Further explanation is provided in Chapter 4, Section 4.5.

Investor Logic.¹¹⁴ Particular attention is given to the different ways in which each practice was justified and the context in which the discourse was produced. Second, codes and corporate annual reports that are exemplars of Corporate Logic, Investor Logic, and both Logics are identified and studied in Section 3. Again, particular attention is given to the context in which these texts were produced. This illustrates how each of the Logics can be embedded in a single text. It also shows that Corporate Logic and alternative Logics were rarely embedded in the discourse. Concluding comments are made in Section 5.

6.2. The Discourse on Executive Remuneration

Executive remuneration practices that were recommended by code issuers or adopted by companies are discussed in this section. This will shed light on how Corporate Logic and Investor Logic were embedded in and able to co-exist in the discourse on executive remuneration.¹¹⁵ There was a standard remuneration package for executives, comprising fixed and variable elements. It is described in the next sub-section. This is followed by a discussion of each component including salaries and benefits, pension (or superannuation), one-off payments for recruitment, retention and severance, short-term incentives (or annual bonuses), long-term incentives, minimum shareholding requirements, the mix of fixed and variable remuneration, and the level of remuneration.

6.2.1. The Standard Remuneration Package for Executives

There is a standard remuneration package for executives in most industrialised countries (see Chapter 3, Table 3.4). This standard remuneration package was often recommended in codes or described in corporate annual reports. As a case in point, Qantas' (AU, 2007) executive remuneration package included base salary, benefits, superannuation, retention payments, short-term incentives and long-term incentives. Table 6.1 reproduces Qantas' *Reward Framework*.¹¹⁶ It describes the standard executive package including the criteria (e.g. performance measures) on which each component of the package was based. A striking

¹¹⁴ As remuneration disclosure requirements were minimal in NZ, AU (prior to 2001), and the UK (prior to 1996), most of the examples on companies are drawn from UK 1998 and 2007 annual reports and AU 2007 annual reports. Further, there are far fewer examples from codes than corporate annual reports because most codes included few specific recommendations on executive remuneration.

¹¹⁵ A pilot study was carried out in order to develop and refine this approach to discourse analysis. Essentially, the pilot study showed that both Logics are embedded in the discourse on executive remuneration. This enables (not constrains) companies: They are able to justify and legitimise almost any executive remuneration practice. The findings from the pilot study are presented in Appendix F.

¹¹⁶ There were similar executive remuneration frameworks amongst the 2007 annual reports of the other companies in the sample (see, for example, British American Tobacco, UK, 2007, p.60; Legal & General Group, UK, 2007, p.51; Newcrest Mining, AU, 2007, p.56; Telstra, AU, 2007, p.87).

feature of Qantas' *Rewards Framework* is a full sentence was used to justify their retention plan, but not the other components. This is indicative of a weakening of Corporate Logic as unconditional components of remuneration were perceived as less legitimate.

Table 6.1: Qantas' Reward Framework

(Source: Qantas, AU, *Annual Report 2007*, p.59)

Fixed Annual Remuneration				Set with reference to role, market and experience			
Performance Plan	Performance Cash Plan		Short-term	Group Financial Target			
	Performance Equity Plan	Performance Share Plan	Medium-term	Balanced Scorecard Target			
				Customer	Operational	People	Financial
		Performance Rights Plan	Long-term	Total Shareholder Return			
	Retention Plan			Targeted incentives and retention arrangements for a small number of key Executives, based on the Board’s assessment of market conditions and the commercial needs of Qantas.			
Other benefits, such as concessionary travel and salary sacrifice arrangements (e.g. for motor vehicles and superannuation)				Reflect industry and market practice			

Qantas' (AU, 2007, p.59, *italics added*) remuneration policy was coupled with their *Rewards Framework* and is reproduced below:

"Qantas needs to be able to *attract, retain* and appropriately reward a capable Executive team... Qantas' philosophy for the remuneration of its Executives is to align their earnings with their duties and responsibilities and *to pay for performance*... [T]he Remuneration Committee seeks advice from a range of independent external specialists. The guiding principles... are that: appropriate *market benchmarks* are reviewed in setting all elements of reward; differentiation to recognise performance is involved in all pay increases, both fixed and 'at risk'; 'at risk' pay decisions are based on a formal performance management system; and *longer-term rewards align the interests of Executives with shareholders* and support a culture of employee share ownership. Overall, the mix of the remuneration program *reflects market practice* but is tailored to the specific circumstances of Qantas. The importance of a stable and talented senior Executive team has always been a priority for Qantas... To ensure the continuity of a successful team, Qantas has made awards under the Retention Plan."

As is typical, the agency, human resources, market and pay-for-performance principles were embedded in Qantas' remuneration policy. Their policy illustrated that executives were only capable of maximising shareholder value if the remuneration practices were designed appropriately. However, their policy also illustrated that Qantas was subject to market forces. In other words, the standard remuneration package was imposed upon Qantas by the market.

Again, the retention plan was justified. Overall, Qantas' remuneration policy and *Rewards Framework* were consistent with both Logics, although the fairness principle was absent.

Pearson's (UK) had also adopted the standard remuneration package for executives. Their remuneration framework is presented in Table 6.2. Curiously, Pearson's remuneration framework did not include all of the elements included in their executives' remuneration packages. The missing elements were other benefits, pensions and the retention plan. For example, elsewhere in their annual report they (2007, p.40) state, "Restricted stock may be granted without performance conditions to satisfy recruitment and retention objectives." All of the remuneration principles (except the fairness principle) were included in Pearson's remuneration policy and were tied to various elements of their package for executives. As with Qantas, Pearson's conceptualised its executives as only capable of maximising shareholder value if the remuneration practices were designed appropriately. Overall, both Logics were embedded in Pearson's remuneration policy, although Investor Logic was stronger than Corporate Logic.

Table 6.2: Pearson's Main Elements of Remuneration

(Source: Pearson, UK, *Annual Report and Accounts 2007*, p.36)

Total remuneration is made up of fixed and performance-linked elements, with each element supporting different objectives.			
Element	Objective	Performance period	Performance conditions
Base salary	Reflects competitive market level, role and individual contribution	Not applicable	Normally reviewed annually taking into account the remuneration of directors and executives in similar positions in comparable companies, individual performance and levels of pay and pay increases throughout the company
Annual incentives	Motivates achievement of annual strategic goals	One year	Subject to achievement of targets for sales, earnings per share or profit, working capital and cash
Bonus share matching	Encourages executive directors and other senior executives to acquire and hold Pearson shares. Aligns executives and shareholders' interests	Three years	Subject to achievement of target for earnings per share growth
Long-term incentives	Drives long-term earnings and share price growth and value creation. Aligns executives' and shareholders' interests	Three years	Subject to achievement of targets for relative total shareholder return, return on invested capital and earnings per share growth

In the remainder of this section, the variation within the sub-sample is illustrated. This analysis reveals that there was limited variation from the standard remuneration package,

although some companies do have abnormal executive remuneration practices. For example, Associated British Foods (UK, 1998) explicitly stated that executives did not receive performance-based remuneration.

6.2.2. Salaries and Benefits

Salaries and benefits are forms of fixed remuneration and are paid in cash. The market principle provides the underlying rationale for setting the level of salaries and benefits. For example, ABI (UK, 2005, p.5) stated that, “When setting salary levels Remuneration Committees should take into consideration the requirements of the market, bearing in mind competitive forces...” Three decisions must be made to set the level: the basis of comparison (e.g. job evaluation systems), the composition of the comparator group, and the position relative to the comparator group (e.g. lower quartile, median or upper-quartile).¹¹⁷ While most codes offered limited guidance on these decisions, a few codes pointed out that positioning salaries above the median has the result of increasing the median over time (e.g. Greenbury, UK, 1995). Until recent changes in remuneration disclosure requirements, many UK and AU companies did not disclose their decisions, except to say that executives’ salaries were competitive in the market. It is likely that a competitive position means median or above, not below median. For example, Tesco (UK, 1998, p.10) stated:

“The base salary, contract periods, benefits... of executive directors and other senior executives, are normally reviewed annually by the Committee, having regard to competitive market practice supported by two external, independent surveys.”

Most companies positioned salaries and benefits at the median relative to the comparator group. For instance, Qantas (AU, 2007, p.60) stated that “FAR [fixed annual remuneration] is reviewed annually and reflects a middle-of-the-market approach, as compared to similar comparative roles within Australia...” Most companies argued that a median position was fair to executives, which is consistent with Corporate Logic. In contrast, some companies positioned salaries at the upper quartile and justified this position with the pay-for-performance principle. For example, Cadbury Schweppes (UK, 2007, p.60) stated that, “Basic salary between median and upper quartile of the Company’s comparator group and at upper quartile for consistently strong or outstanding individual performance...” Linking salary to performance is consistent with Investor Logic. However, a few companies offered

¹¹⁷ Only the last of these decisions is relevant to this research as the position of salaries illustrates the difference between Corporate Logic and Investor Logic (see Chapter 3, Table 3.5).

weak rationales for positioning salaries above the median. For example, BlueScope Steel (AU, 2007, p.48) stated that “Market data is obtained from external sources to establish appropriate guidelines for positions, with the goal to pay slightly above median.” Interestingly, no companies in the sub-sample positioned base salary below the median. This may result in the median being ratcheted upwards over time. For example, BG Group (UK, 2007, p.63)¹¹⁸ stated:

“Executive Director salaries are between the median and upper quartile for this comparator group. The Committee believes this positioning is appropriate given the significantly higher total reward levels at other international oil and gas companies with which BG Group competes for talent.”

There is a flaw in this reasoning because BG Group’s competitors could easily match their positioning for base salary, which will result in an ever-increasing median.

Investor Logic, exemplified by the pay-for-performance principle, was so deeply embedded in the remuneration practices of some companies that salaries become partially variable, although this practice was rare. For example at Newcrest Mining, executives’ salaries were equally split between fixed and variable (“salary at risk”) components. Newcrest Mining (AU, 2007, p.56) invoked the pay-for-performance principle to justify salary at risk (“SaR”):

“SaR is an annual performance dependent cash payment determined by personal and company performance relative to target performance. Above-target performance leads to an above-target payment, and below-target performance to a below-target payment”.

Further, Newcrest Mining’s (AU, 2007, p.57) also had a policy of positioning salary above the median:

“[T]o position fixed remuneration plus SaR (at target performance) at around the 75th percentile of Fixed Remuneration plus performance bonuses paid, measured by a comparator group of companies...”

Essentially, executives were compensated for having half of their salaries at risk with an upper-quartile position.

Consistent with Corporate Logic, the market principle and, occasionally, the fairness principle were invoked by UK companies in justifying executives’ salaries. However, there is a tension between the market and fairness principles when market rates for executives and employees

¹¹⁸ Note that BG Group (UK, 2007) is included in the full sample, not the sub-sample.

change at different rates. As a case in point, Sainsbury J (UK, 2007, p.38) increased the base salary of its chief executive at the same rate as employees' salaries/wages in 2005 and 2006 (3.7% and 3.6%, respectively), but "re-aligned" the Chief Executive's salary with the market median in 2007 (which was an increase of 17%). This decision was justified as follows (2007, p.38):

"Since his appointment in March 2004, the Chief Executive has received pay increases in line with colleagues... However a recent salary review showed that his base pay had fallen significantly behind market median levels. The Remuneration Committee strongly believes that it is in the interests of shareholders to re-align his base salary with market competitive levels."

Prioritising the market principle (i.e. horizontal equity) ahead of the fairness principle (i.e. vertical equity) indicates that executives are motivated by extrinsic rewards and that Corporate Logic may be weak or symbolic.

6.2.3. Pension/Superannuation

Pension (or superannuation) schemes are not conditional on performance and are, therefore, classified as fixed remuneration. There was almost no guidance on pension schemes in the sub-sample of codes, although the Financial Reporting Council (UK, 2006, p.21) recommended that, "only basic salary should be pensionable." Most codes required pension schemes to be disclosed. Similarly, corporate annual reports included limited disclosure. Most companies justified fixed remuneration (including pensions) with the human resources and market principles, but rarely did they provide a separate justification of pension schemes. Some companies do use the market principle to justify pension schemes. For example, Aviva (UK, 2007, p.97) asserted that, "The UK ASPS [Aviva Staff Pension Scheme] provides a competitive post-retirement package."¹¹⁹

Further, there are two types of pension schemes: Defined benefit and defined contribution. Consistent with Corporate Logic, defined benefit pension schemes reward executives for their loyalty and commitment to the company. For example, Associated British Foods (UK, 2007, p.42) appealed to "best practice standards" to justify their defined benefit scheme:

"The Remuneration committee aims to ensure that retirement benefits are in line with best practice standards adopted by major companies in continental Europe and the UK. In accordance with this policy, executive directors are covered by final salary, defined benefit arrangements."

¹¹⁹ Note that Aviva (UK, 2007) is included in the full sample, not the sub-sample.

In effect, this justification is the conformance principle. However, defined benefit schemes appear to have become less common. On the other hand, defined contribution pension schemes are consistent with Investor Logic because executives face more uncertainty as their pension payments are susceptible to changing economic conditions. As a case in point, Brambles (AU, 2007, p.58) explained why defined benefit schemes were undesirable:

“Some retirement benefits are delivered under defined benefit plans. The Board considers that defined benefit pension plans have the potential to create an unreasonable financial burden on the Group. No new members will therefore be admitted to such plans, save in exceptional circumstances.”

Some companies do not have pension schemes. Also, there were rare instances of companies justifying their pension schemes with the pay-for-performance principle. For example, British Sky Broadcasting (UK, 2007, p.44) stated that the pensions are: “Set below market norms, to reflect higher proportion of performance pay.”¹²⁰ This practice is consistent with Investor Logic because executives must achieve performance targets to receive remuneration at the median or above level.

6.2.4. Other Fixed Remuneration

Other fixed remuneration includes recruitment, retention and severance (or golden parachute) payments. There was almost no guidance on these types of fixed remuneration in the sub-sample of codes, although most codes required such obligations to be disclosed. A notable exception was the Trade and Industry Committee’s (UK, 2003) official inquiry into severance payments.¹²¹ This official inquiry was motivated by several high-profile cases of so-called rewards for failure. For example, Lord Simpson, CEO of Marconi, was awarded a £2 million pay and pension package despite a 90 percent fall in Marconi’s share price (Wintour, 19 October 2001). The Trade and Industry Committee (UK, 2003, p.5) concluded, “It would appear that executives have been rewarded not only for success but for failure as well.” Investor Logic was embedded in the Trade and Industry Committee’s (2003, p.12) criticism of the severance payments that some high-profile executives had received:

“If the targets upon which bonuses are based are set at a sufficiently challenging level, and an executive is being removed for underperformance, we cannot see how significant performance-related elements of the remuneration package can legitimately be included in the severance package.”

¹²⁰ Note that British Sky Broadcasting (UK, 2007) is included in the full sample, not the sub-sample.

¹²¹ This code is included in the full sample, not the sub-sample.

Recruitment, retention and severance payments that are not conditional on performance are consistent with Corporate Logic, unless shareholders consider the level of such payments to be excessive. Some companies offered recruitment payments to executives, and some of these were not conditional on performance (e.g. Pearson, UK, 2007, p.40). Others were conditional on performance. As a case in point, Newcrest Mining (AU, 2007, p.65) awarded their new CEO a recruitment payment that was conditional on performance:

“[The CEO] was offered a sign on award of 165,000 Performance Rights... as an incentive to join the Company. The performance hurdle for those Rights was the achievement of initial performance objectives determined in advance by the Board.”

Further, retention payments may be conditional on performance or continuous employment. Some companies justified retention payments that were only conditional on continuous employment as exceptional or abnormal. For instance, Royal Dutch Shell (UK, 2007, p.97)¹²² stated:

“...it is planned to make RSP [Restricted Share Plan] awards to the three Executive Directors who are not retiring over the next year, to enhance retention ahead of the forthcoming Board successions. The RSP awards have no performance conditions and will vest in 2011, subject to the Executive Directors continuous employment.”

Moreover, a few companies' retention schemes were an integral part of their standard remuneration package. As a case in point, Wesfarmers (AU, 2007, p.130)¹²³ explained:

“Senior Executives are entitled to a retention incentive/service payment which accrues over the first five years of their employment contract and is payable on termination. This incentive is important to the retention strategy for key executives.”

Finally, others did offer severance (or early termination) payments, and were typically equivalent to 12-18 months of fixed or total remuneration. For example, Newcrest Mining's (AU, 2007, p.64) CEO could receive one year's total remuneration if the board terminated his employment contract.

6.2.5. Short-term Incentives

Short-term incentives attempt to programme the behaviour of executives by offering financial incentives if targets are met. This is consistent with Investor Logic. Codes offer limited

¹²² Note that Royal Dutch Shell (UK, 2007) is included in the full sample, not the sub-sample.

¹²³ Note that Wesfarmers (AU, 2007) is included in the full sample, not the sub-sample.

specific guidance on short-term incentives because they are principles-based. For example, ASXCGC (AU, 2007, p.36) recommended that, “Incentive schemes should be designed around appropriate performance benchmarks that measure relative performance...” Similarly, ABI (UK, 2002, p.5) encouraged that “Annual bonuses, normally payable in cash... should be related to performance. Both individual and corporate performance targets are relevant...” Notably, some codes recommended that targets should be challenging or stretching. For example, the Financial Reporting Council (UK, 2003, p.21) suggested that, “...performance conditions should be relevant, stretching and designed to enhance shareholder value. Upper limits should be set and disclosed.” However, many codes offered no recommendation on how targets should be set. Therefore, it is not surprising that short-term incentives vary considerably between companies with some having multiple schemes. However, there was much commonality including a mix of financial and non-financial performance measures, performance measured over a single year, a mix of absolute and relative performance targets, awards paid in cash and shares, and the level expressed as a percentage of base salary.

It is difficult to determine how many companies do not use short-term incentives because of limited disclosure requirements in NZ, AU (prior to 2004) and the UK (prior to 1995). In a rare example, Associated British Foods (UK, 1998, p.24) all but rejected short-term incentives: “Performance related bonuses are not given, other than in exceptional circumstances...” Further, there was variability between remuneration packages of executives in the same company. For instance, Antofagasta (UK, 2007, p.71) did not award annual bonuses to the executive chairman, but they did award annual bonuses to other senior executives:

“...performance related pay measures did not apply to Board members... The Board considers this appropriate given its predominantly Non-Executive composition and the role of the only Executive Director, who is a member of the controlling family, as Chairman of the Board. Performance related bonuses are paid to senior management in the Group based on a combination of personal, divisional and Group performance...”

Not having short-term incentives for all executives would be consistent with Corporate Logic, but such a practice was almost unheard of among publicly listed companies (aside from Associated British Foods, UK, 1998).

Most companies had a range of short-term incentive schemes. These may be applicable for the Chief Executive, executive directors, executives and/or employees. In terms of the latter,

some companies had profit sharing schemes in which all employees participated. For example, Tesco (UK, 1998, p.11) had a profit-sharing scheme:

“The Group operates an approved employee profit-sharing scheme for the benefit of all employees, including executive directors, with over two years’ service with the Group at its year end. Shares in the company are allocated to participants in the scheme on a pro rata basis to base salary earned up to Inland Revenue approved limits.”

This is consistent with Corporate Logic in that incentives become a means for sharing profit between shareholders and employees, rather than a means for controlling employees. However, for all companies that used profit-sharing schemes, they were but one scheme among many schemes. Thus, both Logics were embedded in the discourse.

Companies used a range of different performance measures as part of their short-term incentive schemes including financial, non-financial and market-based measures. Consistent with Investor Logic or Corporate Logic, some companies used only performance measures that were profit- oriented. For example, British American Tobacco’s (UK, 2007, p.60) short-term incentives were dependent on “five common measures: underlying operating profit, market share of key players, Global Drive Brand volume, net revenue and cash flow”. These measures were equally weighted. Consistent with Corporate Logic or possibly Stakeholder Logic, other companies used a range of financial and non-financial performance measures. As a case in point, BlueScope Steel’s (AU, 2007, p.48) short-term incentives were dependent on the following:

“[1] Shareholder Value Delivery... including Net Profit After Tax, Cash Flow, and Earnings Before Interest and Tax... [2] Zero Harm... including Lost Time Injury Frequency Rates, Medically Treated Injury Frequency Rates and environmental measures. [3] Business Excellence... [including] delivery performance, days of inventory and quality measures. [4] Strategy – implementation of specific longer-term strategic initiatives.”

However, BlueScope Steel’s (AU, 2007, p.48) short-term incentive scheme was consistent with Corporate Logic, not Stakeholder Logic, because “Shareholder Value Delivery” received a much higher weighting than other performance measures:

“At the senior executive level, 60% of the STI award is based on financial/shareholder value measures with 40% based on KPI metrics. For other participants, 50% of the STI award is based on financial/shareholder value measures and 50% is based on KPI metrics.”

Some UK and AU companies had short-term incentives that were weighted towards financial performance, rather than non-financial performance. This is consistent with shareholder value maximisation, rather than stakeholder value maximisation. However, the performance measures tended to be internal (accounting-based), rather external (market-based). This suggests that Corporate Logic was stronger than Investor Logic, although many companies also had long-term incentives that were tied to total shareholder return (see Section 6.2.6).

There was a target for each performance measure which had to be met for bonuses to be awarded. Each performance measure had a range of targets: the minimum, expected (or on-target) and maximum (or stretch) value. No bonus was awarded below the minimum value, the bonus increased proportionally to actual performance between the minimum value and maximum value, and the bonus was capped if actual performance exceeded the maximum value. These values were usually expressed as a percentage of base salary. For instance, Telstra Corporation (AU, 2007, pp.91-92) disclosed that if the minimum, expected and maximum value were met, then 25%, 50% and 100%, respectively, of the maximum bonus would be awarded, where the maximum bonus ranges from 120% to 200% of fixed remuneration depending on the senior executive's role. It appears that the percentages in many UK companies had increased over time.¹²⁴ For example, Standard Chartered's (UK) maximum value as a percentage of base salary increased from 150% in 1998 (p.34) to 200% in 2007 (p.75). Similarly, Tesco's (UK) maximum value as a percentage of base salary increased from 37.5% in 1998 (p.11) to 150% in 2007 (p.29). These practices were consistent with Investor Logic because of the implicit assumption in target setting that the executive's effort is directly related to firm performance.

Short-term incentives were normally paid in cash immediately after the executive's performance had been evaluated and the target had been deemed to be met. However, short-term incentives might also be paid as restricted shares or share options and a portion of the award might be deferred. In some companies, if executives chose to defer a portion of the award, then an additional award would be made (this is known as 'matching'). Codes offer limited guidance on these practices. While most AU and NZ companies had simple short-term incentive schemes, most UK and some AU companies (particularly in 2007) had complex short-term incentive schemes including the use of deferral and matching. For

¹²⁴ AU companies in 1998 and NZ companies in 1998 and 2007 did not disclose this information.

example, Sainsbury J's (UK, 2007, p.38) scheme requires 25% of the CEO's annual bonus to be paid in shares that are restricted for three years, but this portion of the bonus could be tripled if a relative total-shareholder-return target was met in three years. Similarly, Telstra (AU, 2007, p.96) disclosed:

"...the senior executives are required to receive 25% of their actual STI payment in Telstra shares... [and the plan also] requires the CEO to take 50% of the total actual value of his STI in the form of Telstra deferred shares."

The practice of deferring a portion of short-term incentives may be justified with the agency and/or human resources principles. For instance, Cadbury Schweppes (UK, 2007, p.62) used the agency principle to justify deferral:

"The BSRP [Bonus Share Retention Plan] is available to a group of approximately 115 senior executives including the executive Directors and aims to encourage participants to reinvest their AIP [Annual Incentive Plan] award into the Company's shares thereby more closely aligning the interests of management and shareowners."

In contrast, Westfield Holdings (AU, 2007, p.101) used the human resources principle to justify deferral:

"...the Executive Deferred Award Plan ("EDA Plan") and the Partnership Incentive Plan ("PIP Plan")... are an important part of the package used by the Group to attract, incentivise and retain executives."

They (AU, 2007, p.103) further justified the EDA plan:

"In granting these awards, the sole objective of the Group is retention of key executives for an extended period."

However, some companies justified their short-term incentive schemes with other remuneration principles. As a case in point, Sky Network Television (NZ, 2007, p.70) used the fairness and pay-for-performance principles to justify their short-term incentive scheme, which includes a portion that was deferred:

"SKY has policies in place to ensure that it remunerates fairly and responsibly. All executives and employees receive a portion of their salary based on individual and company-wide performance. The executive incentive scheme is based on the concept of economic value added... Bonuses are "banked", with 33% of the bank being paid out each year. The scheme promotes employee loyalty while ensuring that the cost of the scheme is proportionate to SKY's level of economic return."

Interestingly, Sky Network Television's justification emphasised "employee loyalty" which is reminiscent of Corporate Logic, but their performance measure was Economic

Value Added™ which is associated with Investor Logic. Overall, the above examples illustrate that the same remuneration practice can be justified using different remuneration practices and, consequently, different institutional logics.

6.2.6. Long-term Incentives

Long-term incentive schemes are justified with the agency and/or human resources principles by codes issuers and companies. Consistent with Investor Logic, long-term incentives are often conceptualised as a means for aligning executives' interests with those of shareholders.

The IFSA (AU, 2004, p.29) recommendations are typical among code issuers:

“Share and share option schemes can be an important element of well designed remuneration packages. The granting of a right to equity participation, subject to appropriate performance hurdles, assists in aligning the interests of executives and shareholders. While the alignment of interests is important, shareholders need adequate disclosure to ensure that the schemes are appropriately designed. Equity participation should not involve the provision by the company of non-recourse loans.”

However, while stock exchanges and stock exchange regulators recommend that executives receive long-term incentives in the form of shares or share options, they do not use the agency or human resources principles as a justification.¹²⁵ Instead, these code issuers emphasised the pay-for-performance principle. For instance, ASXCGC's (2007, p.36) recommended:

“Appropriately designed equity-based remuneration, including stock options, can be an effective form of remuneration when linked to performance objectives or hurdles. Equity-based remuneration has limitations and can contribute to ‘short-termism’ on the part of senior executives.”

There is much guidance in codes on long-term incentives relative to other aspects of executive remuneration. This is because of high-profile instances of rewards for failure, where executives were perceived to have received unjustifiable levels of remuneration, particularly grants of shares or share options (AU: IFSA, 2002; Productivity Commission, 2009; and UK: Greenbury, 1995; Trade and Industry Committee, 2003). Code issuers were concerned that executive remuneration had not been tied to long-term firm performance. This is reflected in their recommended performance measures. For example, IFSA (AU, 2007, p.8) explained:

“[Possible performance measures] ...include return on funds employed, adjusted earnings per share or total shareholder return. Whatever measures are adopted by companies, they should be capable of providing appropriate remuneration

¹²⁵ The agency principle was included in the UK's *Combined Code* (London Stock Exchange, 1998; Financial Reporting Council, 2003, 2006, 2008), but was excluded from the *UK Corporate Governance Code* (Financial Reporting Council, 2010).

outcomes in periods of both positive and negative economic and market conditions... Ultimately, the performance measures... should encourage materially improved executive performance on an ongoing basis...”

Generally, code issuers’ recommendations were consistent with Investor Logic, particularly as total shareholder return is often recommended. However, code issuers did not provide a lot of specific guidance on target setting, the level of award, type of payment (cash or shares), and vesting period. Crucially, most code issuers did not discuss the difference between awarded and realised remuneration. Companies are required to disclose the estimated value of long-term incentives when awarded to executives, but executives may never realise this value if targets are not met. This can lead to a perception of rewards for failure, when executives are awarded long-term incentives when firm performance has declined. However, executives will only realise value if firm performance improves. Further, most code issuers did not discuss whether or not long-term incentives represent executives being rewarded for luck or their contribution to performance.¹²⁶ Consistent with Investor Logic, most code issuers seem to assume that changes in firm performance are attributable to executives’ efforts. This is illustrated by the Securities Commission (NZ, 2004b, p.18):

“If a part of executive directors’ remuneration is related to entity performance over time, their efforts are more likely to be focused on making a contribution to future investor returns rather than only on short term gains. Such remuneration may include shares or options.”

Therefore, it is not surprising then that UK directors perceive codes to offer no substantive guidance on how to design long-term incentives for executives (Ogden and Watson, 2008).

Almost all companies had long-term incentive schemes. There was a wide variation in the form of companies’ schemes, but the substance of the schemes was comparable (see below). Companies used a variety of remuneration principles to justify their long-term incentive schemes. As a case in point, Fisher & Paykel Healthcare (NZ, 2007, pp.30-31) justifies their share option plan using both the human resources and agency principles:

“The remuneration policy for senior management is designed to attract, motivate and retain high quality employees who will enable the Company to achieve its short and long term objectives. The policy includes providing performance incentives which allow executives to share in the long term success of the

¹²⁶ A notable exception is the Productivity Commission’s (AU, 2009, p.xxvi) inquiry on *Executive Remuneration in Australia*: “As noted at the outset, the prime motivation for this inquiry is a widespread perception that executives have been rewarded for failure or simply good luck.” This code is included in the full sample, not the sub-sample.

Company and share option plans intended to encourage the retention of senior management and increase the commonality between the interests of management and shareholders.”

The most striking aspect of Fisher & Paykel Healthcare’s remuneration policy is the phrase “... which allow executives to share in the long term success of the Company”. This suggests that executives did not control firm performance. Instead, profits were shared between shareholders and executives. This conceptualisation of long-term incentives is consistent with Corporate Logic.

However, most companies emphasise the agency principle over other remuneration principles when justifying their long-term incentive schemes. For instance, Telecom (NZ, 2007, p.89) had many remuneration principles in their remuneration policy, but only repeats the agency principle when justifying their two long-term incentive schemes:

“Telecom also operates equity or non-cash based long-term incentive (LTI) schemes... These are designed to ensure there is an appropriate balance between short, medium and longer-term performance objectives and to align senior management with shareholder interests... Telecom’s LTI programme has two types of equity-based schemes, the Share Option Scheme and a Restricted Share Scheme (RSS).”

As with short-term incentives, these examples illustrate that long-term incentives can be justified using Corporate Logic only, Investor Logic only or both Logics.

Long-term incentive schemes that AU, UK, and, to a lesser extent, NZ companies adopted were very complex, and this complexity increased over time. This was compounded by most companies adopting multiple schemes. The range of schemes included share options, restricted shares and phantom shares.¹²⁷ A few companies also had schemes that allowed executives to purchase shares using interest-free or low-interest loans (e.g. QBE Insurance, AU, 1998, 2007). Further, long-term incentives were usually dependent on one, two or three performance measures including, but not limited to, earnings per share, return on capital employed and total shareholder return. Some targets were absolute (e.g. a hurdle), while others were relative. Most AU and UK companies in 2007 had relative targets for total shareholder return (relative to a peer group such as FTSE100 companies). The schemes were

¹²⁷ For phantom shares, executives are entitled to receive a cash award based on a certain number of the company’s shares multiplied by the movement in the company’s share price over a specified time period. The award and/or vesting of the phantom shares are often subject to certain targets being met.

often conditional on both award and exercise, although early schemes (in 1989 and 1998) did not have exercise (or vesting) conditions. Amongst AU and UK companies, the levels of awards were expressed as percentage of executives' base salary. Most NZ companies did not explain how the levels of awards were determined. Similar to short-term incentives, the targets were tied to the levels (e.g. minimum, expected and maximum).

To illustrate the range of practices described above, several companies' long-term incentive schemes are discussed below.

As with most UK companies in 1989, Standard Chartered (UK, 1989) provided few details of their executive remuneration practices. They (UK, 1989, p.39) disclosed that they had a "profit sharing scheme", "executive share option scheme" and "saving related share option scheme". No performance conditions were disclosed. The executive share options vesting period was three to ten years. Further, some UK companies in 1989 paid long-term incentives in cash. For example, Grand Metropolitan (1989, p.46)¹²⁸ described:

"A share price related cash bonus scheme is in operation which allows selected employees... to benefit from upward movements in the price of the company's shares over a period of between 6 and 10 years. The scheme is designed to encourage senior executives to align their long-term career aspirations with the long-term interests of the group."

It also appears that the vesting period of long-term incentive schemes had decreased over time with a three to five year vesting period being common in 1998 and 2007.

Tesco (UK, 1998) had three long-term incentive schemes. First, a restricted share scheme:

"Long-term share bonuses are awarded annually, based on improvements in earnings per share, achievement of strategic corporate goals and comparative performance against peer companies including total shareholder return. The maximum long-term bonus is 25% of salary. Shares awarded have to be held for a period of four years, conditional upon continuous service with the company. The share equivalent of dividends which would have been paid on the shares is added to the award during the deferral period." (p.11)

By 2007, the performance measure had changed from total shareholder return to return on capital employed, an additional return on capital employed target on exercise was added and

¹²⁸ Note that Grand Metropolitan (UK, 1989) is included in the full sample, not the sub-sample.

the maximum award increased to 150% of base salary (Tesco, 2007, p.29).¹²⁹ Similar schemes are common among AU and UK companies. It also appears that most companies had increased the maximum award over time.

Second, an executive share option scheme:

“Executive options granted since 1995 may be exercised only subject to the achievement of performance criteria related to growth in earnings per share, in accordance with ABI guidelines.” (Tesco, UK, 1998, p.12)

This scheme changed over time. In 1984, the share options were issued at a discount of 15% and vested between three and five years after being awarded. In 1994, there was no discount and the vesting period was changed to between one and seven years. While the level of the award was not disclosed in 1998, the maximum award was 200% of salary in 2007. Earnings per share was the only performance measure throughout the period studied. Third, a savings related share option scheme. The awards under this scheme were immaterial relative to the other schemes.

In 1998, Legal & General Group (UK) had several long-term incentives schemes, justified with the agency and pay-for-performance principles. In terms of their executive share option scheme, share options had a vesting period of three to ten years subject to a total shareholder return target being met. The target is a multi-year rolling median and relative: “Legal & General Total Shareholder Return (TSR) will have to exceed the median TSR for the FTSE 100 for a period of at least three years” (1998, p.38). In 2007, Legal & General Group (UK, 2007, p.41) still had this scheme in place, although the target had become more complex:

“Awards of nil cost shares made annually, with vesting conditional on relative total shareholder return (TSR) measured over the three subsequent years... The awards will vest in full if Legal & General is ranked at or above the twentieth percentile. One quarter of awards will vest if TSR is at median. No awards vest below median.”

They also disclosed that, “Executive directors normally receive annual grants of 200% of salary” (2007, p.41).

The preceding examples are indicative of Investor Logic because of the emphasis placed on the agency principle and the use of targets (e.g. on award and on exercise) to control

¹²⁹ However, Tesco’s (UK, 2007, p.30) deferred share plan, which was part of their short-term incentive scheme, depended on the total shareholder return targets being met.

executives. However, there is a range of performance measures adopted by companies. Some companies use accounting (or internal) measures of performance, whereas others use market (or external) measures of performance. Investor Logic is inconsistent with the use of accounting measures of performance because executives can manipulate such measures and there may be differences between accounting and market performance (e.g. a company's earnings may rise, but its share price may fall).

Investor Logic was the legitimate discourse. If Investor Logic was not embedded in companies' annual reports, then they risked damaging their legitimacy. As a case in point, Westfield Holdings (AU, 2007) explain in great detail why they did not use total shareholder return as a performance measure. Their explanation was a defence against potential criticism because the implication of rejecting total shareholder return as a performance measures is that the market (i.e. investors as a collective) cannot accurately assess firm performance. Thus, Westfield Holdings challenged the cornerstone of Investor Logic. They (AU, 2007, p.102) justified their decision as follows:

“As in previous years, the Remuneration Committee has considered, and taken advice regarding, the implementation of a hurdle based on measurement of total return to shareholders (“TRS”)... compared to an identified peer group. The Committee ultimately rejected the use of a TRS based hurdle primarily due to unwillingness on the part of the Board and the Committee to determine executive rewards by reference to movements in the price of Westfield Group securities. Although the Westfield Group... has a well established record of delivering increases in share price over time, the philosophy of the Group has been, and remains, that this record of success is a product of sound operating performance and strategic decision making and that the focus of the executive team should remain on the underlying business and not on the price of the Group's securities. The Group's view remains that... performance hurdles should focus on the fundamentals of the Group's business and on the performance of the executive team in meeting the operational, development and corporate targets which the Group sets for itself. The Committee is of the view that if the management team maintains its intensive focus on these fundamentals, security holders will be rewarded, over time, by superior market performance.”

This is also illustrated by Wesfarmers (AU, 2007).¹³⁰ They did not use total shareholder return as a performance measure. Instead, Wesfarmers awarded long-term incentives to executive directors using a unique performance measure called “Total Value Return”, which was based on net cash flow from shareholders plus the change in value of shareholders' equity (calculated as average shareholders' equity multiplied by the ratio of actual return on

¹³⁰ Note that Wesfarmers (AU, 2007) is included in the full sample, not the sub-sample.

equity over target return on equity). They (AU, 2007, p.128) justified “Total Value Return” as follows:

“For a shareholder, Total Shareholder Return (“TSR”) is considered to be the best performance measure over the period of investment. TSR is influenced by external market factors in addition to internal performance. For this reason, Wesfarmers rewards Executive Directors... on the long term growth of the economic value of the company. A reward model [based on Total Value Return]... rewards the Executive Directors for the achievement of long term increases in shareholder wealth.”

This implies that Wesfarmers’ board did not believe that TSR and Total Value Return were highly correlated. Otherwise, if they had believed that these performance measures were highly correlated, then there would have been no reason to use Total Value Return. This defence of “Total Value Return” illustrates how deeply Investor Logic was embedded in the discourse.

On the whole, while the design of long-term incentive schemes had changed over time, most companies’ schemes were consistent with Investor Logic because their schemes were conditional on targets being met. Unconditional schemes had fallen out of favour. This is consistent with a weakening of Corporate Logic and a strengthening of Investor Logic over time. However, Corporate Logic was still embedded in the discourse because schemes were justified with the human resources principle and dependent on accounting measures of performance.

6.2.7. Minimum Shareholding Requirements

Having minimum shareholding requirements for executives were not recommended by most code issuers and were not adopted by most companies. However, minimum shareholding requirements were encouraged by the ABI (UK, 1999, 2002, 2005, 2007), and adopted by some UK companies. Executives were usually required to set aside a portion of their salaries and/or annual bonuses to acquire shares. Minimum shareholding requirements were often specified as a percentage of salary. For example, Cadbury Schweppes (UK, 2007, p.62) states:

“...the share ownership guidelines that we apply ...are at the top end of such requirements in the FTSE 100, with executive Directors expected to meet a share ownership requirement set at four times base salary and a range for all senior executive in the business from one to three times salary, depending on their level of seniority.”

There were few cases of AU and NZ companies having minimum shareholding requirements. A rare exception was Fletcher Building (NZ, 2007, p.49).¹³¹ They required their CEO to use at least 50% of his variable remuneration to build up over time a minimum shareholding of at least 50% of his fixed remuneration.

The agency principle is used to justify minimum shareholding requirements. For example, Unilever (UK, 2007, p.51) stated:

“Executive Directors are required to demonstrate a significant personal shareholding commitment to Unilever. Within five years of appointment, they are expected to hold shares worth 150% of their annual base salary. This reinforces the link between the executives and other shareholders.”

Unlike other incentive schemes, minimum shareholding requirements have downside risk for executives because they cannot lower their shareholding below the minimum (unless their employment ceases) and if share prices fall, then executives have to acquire more shares to maintain their shareholding. Forcing executives to acquire shares is consistent with Investor Logic, not Corporate Logic. However, some companies partially negate this downside risk by requiring executives to hold a minimum number of shares. For example, Standard Chartered (UK, 2007, p.77) stated:

“The Group operates a shareholding guideline policy which aims to align the interests of executives with shareholders by ensuring that they build up a significant equity stake in the Company... The current guideline levels are as follows: Group CEO at least 100,000 shares...”

Further, minimum shareholding requirements may be symbolic because the minimum is set very low, or executives are granted enough shares (via long-term incentive schemes) to ensure that they never have to forfeit a portion of their salaries or annual bonuses to acquire shares. However, minimum shareholding requirements may be substantive in that they act as a (potential) punishment, rather than a reward. For example, Tesco (UK, 2007, p.30) stated:

“Executive Directors are normally expected to build and maintain a shareholding with a value at least equal to their basic salary. New appointees will typically be allowed around three years to establish this shareholding. Full participation in the PSP [performance share plan] is conditional upon this.”

Again, this appears to be consistent with Investor Logic, not Corporate Logic.

¹³¹ Note that Fletcher Building (NZ, 2007) is included in the full sample, not the sub-sample.

6.2.8. Mix of Fixed and Variable Remuneration

There was no precise mix of fixed and variable remuneration that was recommended by codes issuers or desired by companies.¹³² Many codes include no guidance on what mix is appropriate or how to decide what is the appropriate mix. For example, the ASXCGC (AU 2003, p.55) simply observed that “Most executive remuneration packages will involve a balance between fixed and incentive pay”, but did not define “balance”. Similarly, the Securities Commission (NZ, 2004b, p.17) recommended, “Executive (including executive director) remuneration packages should include an element that is dependent on entity and individual performance”, but did not define “an element”. Further, first edition of the *Combined Code* (London Stock Exchange, UK, 1998, p.3) recommends that, “A proportion of executive directors’ remuneration should be structured so as to link rewards to corporate and individual performance”, but did not define “a proportion”. The second edition of the *Combined Code* (Financial Reporting Council, UK, 2003, p.12) added the word “significant” to their recommendation (“A significant proportion of executive directors’ remuneration...”). On the whole, codes offer no specific guidance on the mix of fixed and variable remuneration.

Most companies only disclosed their actual mix of fixed and variable remuneration for executives. For instance, QBE Insurance (AU, 2007) indicated that the actual mix for the CEO was 32% (2006: 31%) for base salary, 43% (2006: 42%) for short-term incentives and 25% (2006: 27%) for long-term incentives. The conformance principle was used to justify the actual mix: “Consistent with market practice, the mix of total remuneration and reward is dependent on the level of seniority of the executive” (2007, p.63). Some AU and UK companies in 2007 did disclosure the desired mix. As a case in point, Standard Chartered (UK, 2007, p.74) indicates that the desired mix for executive directors is weighted towards variable remuneration: Desired mix was 34% for base salary, 43% for bonus and 23% for long-term incentives, while the actual mix was 23% for base salary, 42% for bonus and 35%

¹³² In terms of companies, the desired (not actual) mix of fixed and variable remuneration discriminates between Corporate Logic and Investor Logic. A desired mix of high fixed and low variable remuneration is consistent with Corporate Logic. An actual mix of high fixed and low variable remuneration is less informative. For example, this may be consistent with Investor Logic if variable remuneration is low because executives did not meet their targets. However, the longitudinal change in actual mix is also informative. The longitudinal trend has been an increase in the proportion of variable remuneration among AU and UK companies (PricewaterhouseCoopers, UK, 2005, 2010; Productivity Commission, AU, 2009; Shields et al., AU, 2003). No longitudinal data are available on NZ companies, although newspapers report a similar (but weaker) change in mix (see Chapter 7, Section 7.2). These trends are consistent with a transition from Corporate Logic to Investor Logic. Alternatively, these trends are consistent with an increase in managerial power (Bebchuk and Fried, 2004). Note that the actual mix reported in the sub-sample of corporate annual reports was not quantitatively studied.

for long-term incentives. Further, some companies had a strong emphasis on variable remuneration. For example, Unilever (UK, 2007, p.51) stated, “The Committee decided not to increase the salaries in 2007 in order to place more emphasis on performance related pay and less on fixed pay.” Overall, the desired mix tends to be weighted towards variable remuneration, which is consistent with Investor Logic.

6.2.9. Level of Fixed, Variable and Total Remuneration

Most code issuers did not provide specific recommendations on how companies should determine the level of fixed, variable and total remuneration. However, most companies did describe and justify how the level of each component of remuneration was determined, but they did not discuss how they positioned the level of total remuneration. For example, Legal & General (UK, 2007, pp.51-52) disclosed that the CEO’s salary was positioned “at around the mid-market level relative to the FTSE 100”, short-term incentives had an expected value of 75% of salary and a maximum value of 125% of salary, and long-term incentives had an expected and maximum value of 200% of salary. This remuneration policy was typical amongst AU and UK companies, where variable remuneration was tied to fixed remuneration. NZ companies provided insufficient remuneration disclosure for any inference to be made. The standard remuneration package for executives is inconsistent with Corporate Logic, where executives are conceptualised as stewards (e.g. intrinsic motivation is greater than extrinsic motivation). On the other hand, it is consistent with Investor Logic, where executives are conceptualised as agents (e.g. extrinsic motivation is greater than intrinsic motivation).

There appears to be a fundamental flaw in the standard remuneration package as the market principle overrides the other remuneration principles because most companies positioned the level of total remuneration at the median or above. This flaw is known as the ratchet effect (or the Lake Wobegon effect). Greenbury (1995, p.37) was the first of many code issuers to point out this flaw:

“Companies should not pay above average levels regardless of performance. They should also beware of basing remuneration levels on a skewed comparator group so as to justify higher remuneration levels. If companies generally pursue such policies, the effect will simply be to ratchet up the general level of executive remuneration.”

However, few companies had remuneration policies that prevented them from contributing to an upward ratchet of the level of executive remuneration. A rare exception was BSKyB (UK, 2007).¹³³ They (2007, p.44) stated that, “Pay is very competitive if BSKyB’s stretching targets are delivered, but if these targets are not met, the ‘guaranteed’ elements of pay are below market norms.” According to Corporate Logic, the fairness principle should act as a counterweight to the human resources and market principles (cf. the UK’s Sainsbury J’s decision to increase their CEO’s base salary, Section 6.2.2). Accounting for employees’ working conditions should prevent above-average increases in executive remuneration. This was explained by Greenbury (1995, p.35):

“Paying over the odds, on the other hand, is incompatible with the fiduciary duty of Directors to act in the company’s best interests... It can cause resentment among staff and damage the company’s reputation.”

Few companies had the fairness principle built into their remuneration policies and practices. A possible exception was Legal & General Group (UK, 2007, p.49), who explained how the fairness principle was enacted:

“Management work in partnership with the trade union, Unite, to ensure our pay policies and practices are free from unfair bias. This is monitored by an annual equal pay audit.”

Thus, the version of Corporate Logic embedded in the discourse on executive remuneration might be symbolic. Alternatively, Corporate Logic might have become weakened because it had been combined with Investor Logic. Certainly, the standard remuneration package was consistent with Investor Logic. Given that the agency, human resources, market and pay-for-performance principles were widely diffused (see Chapter 5) and strongly tied to remuneration practices (see above), Corporate Logic and Investor Logic might have merged into a new logic. This possibility is explored further in the next section.

6.3. Exemplars of Institutional Logics

The discourse on executive remuneration that code issuers and companies produced in their codes and annual reports, respectively, might be consistent with Corporate Logic only, Investor Logic only, both Corporate Logic and Investor Logic, another Logic (e.g. Stakeholder Logic) or no Logic. These five possibilities are discussed in this section, although most exemplars of institutional logics that are presented in this section are

¹³³ Note that BSKyB (UK, 2007) is included in the full sample, not the sub-sample.

companies, not code issuers. This is because code issuers' recommendations were either too brief or too non-specific for a strong conclusion to be made. The context in which the discourse was produced is taken into account in order to classify code issuers and companies into one of the five possibilities. For companies, particular attention is given to their ownership structure, board structure and stated corporate objective (e.g. mission statement). However, Corporate Logic and Investor Logic can be embedded in the discourse on executive remuneration to varying degrees as has been shown in the previous section. Some aspects of the discourse can be symbolic (e.g. the fairness principle was often not tied to any remuneration practices). These complexities are also considered.

The corporate objective that is recommended by code issuers and stated by companies in all of codes and corporate annual reports in the sub-sample was studied. Almost all codes had shareholder value maximisation as the recommended corporate objective. Most remaining codes had no recommended corporate objective. Three texts produced by the Securities Commission (NZ, 2004b, 2006, 2010) had stakeholder value maximisation as the recommended corporate objective, but, unlike all other codes in the sub-sample, their code was applicable to all types of organisations, not just listed companies. Further, most companies stated that their corporate objective was either profit maximisation or shareholder value maximisation. Only a few companies stated that their corporate objective was stakeholder value maximisation. However, these companies often repeated their corporate objective and each repeat was slightly different. For example, The Warehouse (NZ, 2007, p.1) stated, "The primary objective of the board is to build long-term shareholder value with due regard to other stakeholder interests." And they (2007, p.77) also stated, "The Warehouse aims to manage its business in a way that will produce positive outcomes for all stakeholders including the public, our customers, team members, suppliers and our shareholders." The former is consistent with *enlightened* shareholder value maximisation, while the latter is consistent with stakeholder value maximisation.

Shareholder value maximisation was dominant because stakeholder value maximisation was perceived, at least by some code issuers, as impractical. This was illustrated by Hampel (1998, p.12):

"...the directors as a board are responsible for relations with stakeholders; but they are accountable to the shareholders. This is not simply a technical point. From a practical point of view, to redefine the directors' responsibilities in terms of the stakeholders would mean identifying all the various stakeholder groups;

and deciding the nature and extent of the directors' responsibility to each. The result would be that the directors were not effectively accountable to anyone since there would be no clear yard stick for judging their performance. This is a recipe neither for good governance nor for corporate success."

6.3.1. Stakeholder Logic

Stakeholder Logic was (lightly) embedded in the discourse of some code issuers and companies (e.g. The Warehouse, NZ, 1998, 2007).¹³⁴ However, code issuers did not recommend stakeholder value maximisation as the corporate objective and did not mention non-shareholding stakeholders in relation to executive remuneration (e.g. performance measures were not recommended to be stakeholder-oriented). Instead, non-shareholding stakeholders were marginalised relative to shareholders. For example, the ASXCGC's (AU, 2003, p.11) tenth principle was "Recognise the legitimate interests of stakeholders". Similarly, the Securities Commission (NZ, 2004b, p.2) ninth principle was, "The board should respect the interests of stakeholders within the context of the entity's ownership type and its fundamental purpose." In contrast, the Financial Reporting Council (2003, 2006, 2008, and 2010) did not mention stakeholders, communities, customers, employees (except in relation to director independence), suppliers, or society. On the whole, while some code issuers did encourage boards to consider the interests of non-shareholding stakeholders, the interests of shareholders were prioritised, particularly in relation to executive remuneration.

A number of companies' stated corporate objectives were consistent with Stakeholder Logic, but these companies' executive remuneration practices were not consistent with Stakeholder Logic. For example, Unilever's (UK) corporate objectives in 1998 (*Annual Review*, p.ii) and in 2007 (*Annual Report and Accounts*, p.2) were consistent with stakeholder value maximisation:

"Our long-term success requires a total commitment to... working together effectively... To succeed also requires, we believe, the highest standards of corporate behaviour towards everyone we work with, the communities we touch, and the environment on which we have an impact. This is our road to sustainable, profitable growth, creating long-term value for our shareholders, our people, and our business partners." (Unilever, UK, 2007, p.2)

However, Unilever's (UK) remuneration package for executives in 1998 (*Annual Accounts*, pp.29-37) and in 2007 (*Annual Report and Accounts*, pp.49-61) were consistent with

¹³⁴ Political Logic is not considered because having directors who are representatives of different stakeholders was not recommended by any code issuers and was very rarely adopted by any company.

shareholder value maximisation. For both short- and long-term incentives, their targets in 1998 were based on earnings per share and unspecified individual targets and in 2007 were based on revenue growth, Economic Value AddedTM, free cash flows, total shareholder return and unspecified individual targets.

Westpac Banking Corporation's (Westpac, AU) corporate objective in 1998 (p.6) was consistent with *enlightened* shareholder value maximisation, where communities and customers were conceptualised as the means to the end of shareholder value:¹³⁵

“As part of our determination to position Westpac around higher quality, lower risk earnings streams, we have moved to a stronger community and customer focus. We see the development of deeper, multiple product relationships with our customers as critical to building longer term shareholder value. We are confident that our customer focus will prove to be correct in the longer term.”

By 2007, Westpac's corporate objective (p.10) was consistent with stakeholder value maximisation as each stakeholder was treated as a separate end:

“In realising our strategy, we are therefore seeking to continuously improve or maintain a leading position in: employee commitment; customer satisfaction and advocacy; shareholder returns; and corporate responsibility ratings.”

However, this corporate objective might have been symbolic because shareholder value was emphasised throughout their 2007 annual report. For example, the text on the cover page read (2007, p.i): “Westpac 2007 Annual Report... Yesterday... The Real Return for Shareholders... Strong earnings, solid returns and a confident outlook...” Moreover, Westpac's remuneration package for executives in 1998 (pp.81-82) and in 2007 (pp.40-44) were consistent with shareholder value maximisation. While targets were not disclosed in 1998, their 2007 targets for short-term incentives were based on Economic Value AddedTM and a range of financial and non-financial measures. With respect to targets for short-term incentives, Westpac (AU, 2007, p.40) explains that non-shareholding stakeholders are a means to the end of shareholder value:

“Other financial and non-financial performance measures are established for each executive, including measures of business efficiency and risk management, customer satisfaction, employee commitment and corporate responsibility. These

¹³⁵ Westpac's (1998) annual report had a strong stakeholder focus because the banking industry in AU and NZ faced a legitimacy crisis at the time. Westpac along with other banks were closing many branches and introducing new fee regimes. The public, particularly customers, were outraged. Westpac's 1998 annual report (pp.1-42) is a textbook example of impression management, culminating on page 42 with a stakeholder value statement. Using pie charts, this statement showed “Where each \$1 of our income came from” and “Where each \$1 of our income went” (Westpac, AU, 1998, p.42).

measures offer insight into current corporate health and are drivers of future sustainable shareholder value.”

Westpac’s 2007 targets for long-term incentives were based on relative total shareholder return. Thus, Unilever’s (UK) and Westpac’s (NZ) versions of Stakeholder Logic appear to have been symbolic, not substantive. No exemplars of Stakeholder Logic that was substantive were identified.

6.3.2. Corporate Logic

There are few exemplars of Corporate Logic in the sub-sample of codes and corporate annual reports. The human resources and market principles were widely diffused and tied the recommendations of code issuers and the remuneration practices of companies, but the fairness principle was not as widely diffused and rarely tied to recommendations and practices. This means that the theoretical version of Corporate Logic (see Chapter 2, Section 2.5.3) is different to the practiced version of Corporate Logic.

No exemplars of Corporate Logic amongst the sub-sample of codes were identified. In all of the codes, either Investor Logic or both Corporate Logic and Investor Logic were deeply embedded in not only their recommendations on executive remuneration, but also their recommendations on corporate governance. This is illustrated in Table 6.3. Of those codes that had recommendations on corporate governance, they recommended that the board should be comprised of a balance of executive and non-executive directors or a majority of non-executive directors, and that the remuneration committee should be comprised of a majority of non-executive directors or only non-executive directors. Further, these codes recommended that non-executive directors should be independent (e.g. not former executives and have minimal shareholdings). Such recommendations are consistent with Investor Logic, not Corporate Logic.

Table 6.3: Code Issuers' Recommendations on the Composition of Boards and Remuneration Committees

Type of Texts (No. of texts)	Board Composition				Remuneration Committee Composition			
	Not specified	Balance of EDs and NEDs	Majority of NEDs	Only NEDs	Not specified	Balance of EDs and NEDs	Majority of NEDs	Only NEDs
UK Codes								
Pre-1998 (4)	3 (75%)	1 (25%)			1 (25%)		1 (25%)	2 (50%)
1998 to 2006 (13)	5 (38%)	5 (38%)	3 (23%)		3 (23%)		4 (31%)	6 (46%)
Post-2006 (5)	2 (40%)	3 (60%)			1 (20%)		3 (60%)	1 (20%)
AU Codes								
Pre-1998 (6)			6 (100%)		2 (33%)		4 (67%)	
1998 to 2006 (9)	4 (44%)		5 (56%)		3 (33%)		6 (67%)	
Post-2006 (6)	3 (50%)		3 (50%)				6 (100%)	
NZ Codes								
Pre-1998 (1)	1 (100%)				1 (100%)			
1998 to 2006 (8)	3 (38%)	1 (13%)	4 (50%)		5 (63%)		2 (25%)	1 (13%)
Post-2006 (5)	1 (20%)	1 (20%)	3 (60%)		4 (80%)			1 (20%)

Key: ED = Executive Director; NED = Non-executive Director. NEDs may be affiliated or independent.

Only one exemplar of Corporate Logic amongst the sub-sample of corporate annual reports was identified. There were many instances of companies that justified their executive remuneration practices with only the human resources and/or market principles, but most of these companies also provided minimal remuneration disclosure. For example, Tourism Holdings (NZ, 2007, p.19) disclosed their remuneration policy, but not the criteria that they used to award annual bonuses and share options to executives:

“[Our remuneration policy is] ...designed to make sure that: • The senior employees of the company are appropriately rewarded for excellent achievement and performance • THL [Tourism Holdings Limited] is able to attract and retain high performing people whose skills and attributes are well matched to THL’s requirements...”

This meant that these companies could not be classified as being exemplars of Corporate Logic. Of the companies that were considered to be possibly exemplars of Corporate Logic, most had their company’s founder (or a member of his/her family) as either the CEO or a director. However, all of these companies had adopted the standard remuneration package for executives, except for Associated British Foods (UK).¹³⁶

¹³⁶ For example, Antofagasta (UK, 2007) had an executive chairman who was the son of the founder that did not receive any variable remuneration, but other executives did receive variable remuneration (see Section 6.2.6).

Associated British Foods (UK) was an exemplar of Corporate Logic in 1998 for several reasons.¹³⁷ First, while the corporate objective was not explicitly stated, the chairman's report had a strong emphasis on profit and dividends (Associated British Foods, UK, 1998, pp.2-4). Second, the company was led by an executive chairman, who was the son of the company's founder. He had been in the role since 1978. Also, he chaired a charitable trust, the Garfield Weston Foundation, which owned a controlling interest in an investment company, which in turn owned a majority shareholding in Associated British Foods. The significant point was that the charitable trust, established by his father, supports many humanitarian causes. Thus, the executive chairman appeared to be a steward (not an agent). Third, the Board was comprised of five executive directors and three non-executive directors, but one non-executive director was the chairman's brother. Fourth, the executive chairman chaired the remuneration committee, despite this practice not being recommended by the LSE listing rules. Associated British Foods (UK, 1998, p.24) did not justify their decision:

“[T]he Stock Exchange Listing Rules... recommended that these committees [audit and remuneration committees] be comprised of non executive directors with no executive representation. The Board... does not accept this recommendation as it considers that Mr Garry H Weston, Executive Chairman, should serve on both committees.”

Therefore, the executive chairman can set his own pay. This represents a conflict of interest, which would be exploited by an agent. However, this is not problematic if the executive chairman, as argued, was a steward. Fifth, the company's (UK, 1998, p.24) remuneration policy emphasised the market principle and all but ruled out annual bonuses:

“Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved. Performance related bonuses are not given, other than in exceptional circumstances”

Sixth, executives were awarded share options that were “not subject to specified performance criteria” (p.21).

By 2007, both Corporate Logic and Investor Logic were embedded in Associated British Foods' (UK) discourse. The main changes from 1998 to 2007 were as follows. First, the company's board and remuneration committee became dominated by independent non-executive directors with two executive directors (George Weston, who was CEO) and eight

¹³⁷ Associated British Foods' (UK) 1989 annual report could not be classified as an exemplar of any Logic because it included almost no remuneration disclosure.

non-executive directors (including Galen Weston). Second, the company's remuneration policy (2007, p.40) included multiple remuneration principles. Also included in the company's 2007 remuneration policy (2007, p.40) was their rationale for increasing the proportion of variable remuneration:

“Following a detailed review of the total remuneration package of executive directors and other senior executives in 2006, it was agreed that a substantial element of executive compensation should be ‘at risk’ in order to reward and drive increased performance, reflect the market trend and to align better the interests of executives with those of shareholders. The proportion of variable pay to fixed pay has increased over the past few years and now stands at around 2:1 for executive directors.” (p.40)

This highlights a strengthening of Investor Logic relative to Corporate Logic. However, while the market principle was not part of their 2007 remuneration policy, the market principle was embedded in their executive remuneration practices. Base salary was set at the median relative to the company's peers, and the value annual bonuses and long-term incentives awarded to executives are expressed as a percentage of base salary. Thus, Corporate Logic was still embedded in the company's discourse.

Third, Associated British Foods (UK, 2007) had adopted the standard remuneration package for executives. In 2000, an additional executive share option plan was adopted in which the vesting period was reduced from five to three years and performance conditions were introduced (with targets based on return on capital employed and earnings per share). In 2006, a review of the executive directors' remuneration packages led to a substantial increase in the proportion of variable remuneration (as noted above). This strengthening of Investor Logic was inconsistent with the Weston family ethos (exemplified by their continued involvement with the Garfield Weston Foundation). After all, the ownership arrangements had not changed with the charitable trust remaining in control and the founder's son was a director and his grandson was the CEO. Also, Associated British Foods' profitability had been increasing over time with no net losses. There was no reason aside from institutional pressures (e.g. changing norms) for Investor Logic to become embedded in the company's discourse.

However, Corporate Logic was still embedded in Associated British Foods' (UK) 2007 annual report. For instance, it included a “Corporate Citizenship” report in their 2007 annual report, which demonstrated the company's concern for the welfare of its employees,

customers, shareholders, suppliers and others (pp.24-27). These factors are reminiscent of stewardship theory's argument that the founder and his/her family are stewards of the company (Davis et al., 1997; Anderson and Reeb, 2003). It is likely that the Weston family perceived the company as an extension of themselves; they were both the psychological and financial owners for the company (Hernandez, 2012). Further, the company's (2007, p.24) corporate objective was still profit-oriented: "Our aim is to concentrate our energies and expertise to achieve strong, sustainable leadership positions in markets that offer potential for profitable growth." While profit maximisation is different to shareholder value maximisation, it has been traditionally considered to be beneficial for shareholders. This is suggestive of Corporate Logic or managerial capitalism (Chandler, 1962, 1984; Zajac and Westphal, 2004).

6.3.3. Investor Logic

As aforementioned, all codes' recommendations are consistent with either Investor Logic only or both Corporate Logic and Investor Logic (see Section 6.3.2). Four codes, Hilmer (AU, 1993, 1998), MinterEllison (NZ, 2003, 2009), and NZX (2003, 2004, 2010) were identified as likely to have recommendations that are consistent with Investor Logic only (see Chapter 5, Table 5.3). Hilmer's codes were lengthy texts that included much discussion on corporate governance but not much on executive remuneration. There was a strong emphasis on maximising shareholder value. The agency, motivation and pay-for-performance principles were also present. Hilmer (AU, 1993, p.75) was supportive of financial incentives for executives:

"The incentive should be tied to the long-run performance goals of the firm, and while the amount paid should depend on performance, executives should not have schemes so structured that the downside penalizes executives to the extent that executives will be more risk-averse than shareholders would like them to be."

However, Hilmer (AU, 1998) warned that many incentive schemes had become too complex and will led to a mismatch of interests between executives and shareholders. Further, Hilmer (AU, 1993, 1998) criticised conventional wisdom that non-executive directors, who are independent, can hold executives to account. Thus, both Logics are embedded in the discourse, although Investor Logic is stronger.

MinterEllison (NZ, 2003, 2009), an Australasian law firm, produced two editions of their *Corporate Governance White Paper*. There were few changes between editions. MinterEllison's codes were lengthy texts that included much discussion on corporate

governance but not much on executive remuneration. Only the pay-for-performance principle was present in both editions. They recommended that executives receive an even mix of fixed and variable remuneration because fixed remuneration only can led to complacency, while variable remuneration only can led to a short-term focus. Interestingly, they did not argue that long-term incentives are required to encourage a long-term focus. This line of reasoning is similar to Frey and Osterloh's (2005) argument that executives should receive mainly fixed remuneration to prevent a short-term focus. Further, they were critical of independent directors being seen as a cure for poor corporate performance, but did acknowledge that they had a role in the boardroom. These latter two arguments are consistent with Corporate Logic. Thus, both Logics are embedded in the discourse, although Investor Logic is stronger.

NZX (NZ Stock Exchange, formerly NZSE) had produced a number of codes including four editions of the *Listing Rules* (1994; 1999; 2003; 2009), two editions of the *Corporate Governance Best Practice Code* (2004; 2010), and a policy statement on *Directors' Remuneration Packages* (2005). Only the pay-for-performance principle was included in three of these codes. It relates to the following recommendation found in NZX (2003, 2004, 2010, para.2.7):

“Directors are encouraged to take a portion of their remuneration under a performance-based Equity Security compensation plan... [which] plan should not vest until at least after two years after the grant... Alternatively (or in addition), Directors are encouraged to invest a portion of their cash Directors' remuneration in purchasing the Issuer's Equity Securities.”

However, the NZX's remaining discussion on remuneration concerned disclosure, rather than executive remuneration practices. They briefly discussed the process that a remuneration committee should follow and set out minimum disclosure requirements. Further, NZX's *Listing Rules* and *Corporate Governance Best Practice Code* did require independent directors on the board, but not on the remuneration committee. Overall, the NZX's discussion on corporate governance and remuneration are consistent with Investor Logic only, although this conclusion is tentative given the brevity of their discussion.

As shown in Section 6.2, most codes' recommendations are consistent with Investor Logic. In particular, some codes produced by the ABI (UK) and Hermes (UK) are exemplars of Investor Logic because they are representatives of investors. As a case in point, ABI (1999a, p.2) had a strong emphasis on shareholder value and performance-based remuneration:

“It is now widely recognised that alignment with the shareholder interest is best achieved through the vesting of awards under share incentive schemes being conditional on satisfaction of performance criteria which demonstrate the achievement of demanding and stretching financial performance through the incentivisation period. The greater the level of potential reward to individual participants the more stretching and demanding the performance conditions should be.”

Similarly, Hermes (UK, 2003, p.7) emphasised on shareholder value and performance-based remuneration:

“The compensation of directors and senior management must be aligned with the interests of shareholders... The performance bonus should be earned only if there is outperformance by reference to key performance indicators and by comparing corporate performance with industry benchmarks.”

Some of ABI’s and Hermes’ codes, particularly the lengthy ones, included remuneration principles and recommendations that were consistent with Corporate Logic. For example, some of the ABI’s (UK, 2002) recommendations were partially based on the human resources and market principles, although their recommendations also strongly emphasised performance-based remuneration:

“Shareholders recognise that... through their remuneration strategy, companies recruit, retain and incentivise individuals to create shareholder value... Remuneration policy should aim to establish a clear link between reward and performance.” (p.1)

“When setting salary levels Remuneration Committees should take into consideration the requirements of the market... A policy of setting salary levels below the comparator group median can provide more scope for increasing the amount of variable performance based pay and incentive scheme participation...” (p.5)

Interestingly, ABI (UK, 2002, p.3) also states that “Remuneration Committees should have regard to pay and conditions elsewhere in the company.” This is reminiscent of the fairness principle.

Overall, Investor Logic is stronger than Corporate Logic in not only the ABI’s and Hermes’ codes, but most codes. However, definitive classifications for most codes are not possible because most were principles-based and included non-specific recommendations on executive remuneration.

Several exemplars of Investor Logic amongst the sub-sample of corporate annual reports were identified. There were a number of instances of companies that justified their executive remuneration practices with only the agency, motivation and/or pay-for-performance principles, but most of these companies also provided minimal remuneration disclosure. For instance, Michael Hill International (NZ, 2007, pp.14-15) provided only a brief overview of their executive remuneration practices:

“The function of the Remuneration sub-committee is to determine the Chief Executive’s and Senior Management’s remuneration... [T]he subcommittee operates independently of Senior Management... and obtains independent advice on... the remuneration packages... The committee has continued to structure Senior Management bonuses around a return on capital employed basis, to emphasise efficient use of capital.”

This meant that these companies could not be classified as being exemplars of Investor Logic. On the other hand, some companies’ remuneration disclosures were sufficient for classifications to be made. Many companies that were possible exemplars of Investor Logic had executive remuneration practices that were partially (or weakly) consistent with Corporate Logic. This may be because as remuneration disclosures increase in length, the probability of adopting the human resources and market principles (or other aspects of Corporate Logic) increases. Therefore, it is not surprising that the companies identified as exemplars of Investor Logic only were from the 1998 sample. Three exemplars of Investor Logic, CGU (UK, 1998), Macquarie Bank (AU, 1998) and Brierley Investments (NZ, 1998), are discussed next.

Investor Logic only is embedded in CGU’s (UK, 1998) discourse for the following reasons.¹³⁸ First, CGU’s (1998, p.17) corporate objective was shareholder value maximisation: “CGU has a clear focus on creating shareholder value”. Second, CGU’s board had a majority of independent directors: It was comprised of five executive directors and eight independent non-executive directors (including the Chairman). Third, while CGU’s remuneration policy included all six remuneration principles, they had a stronger emphasis on agency, motivation and pay-for-performance principles than most other companies. For example, CGU (UK, 1998, p.32) advocated meritocracy:

“The Group’s remuneration policies are aimed at... ensuring that senior executives... are rewarded fairly for their respective individual contributions to the Group’s performance.”

¹³⁸ CGU (UK, 1998) was selected from the full sample, not the sub-sample. CGU was selected because of its very strong emphasis on pay-for-performance as it had six incentive schemes.

Note that the use of word “fairly” here is a bit of a red herring. Fourth, executives’ base salaries were performance-related. They (1998, p.32) stated:

“[S]alaries are aligned with the upper quartile for comparable positions, subject to the directors being assessed as fully competent... [which takes] into account experience, performance and personal targets achieved, and requires evidence of superior performance over a sustained period.”

Fifth, executives’ were eligible to participate in two short-term incentive schemes (a cash bonus plan and a deferred share bonus plan) and four long-term incentives (executive share option scheme, savings-related share option scheme, integration cash bonus scheme, and integration restricted share scheme).¹³⁹ Targets for the cash bonus plan were, in part, based on Economic Value AddedTM. Targets for the executive share option scheme were based on relative total shareholder return (CGU, 1998, p.33). Thus, CGU’s remuneration committee appears to have believed that incentive schemes can control (or programme the behaviour of) executives. On the whole, CGU’s governance and remuneration practices were consistent with Investor Logic.

Macquarie Bank (AU, 1998) represents an exemplar of Investor Logic only for several reasons.¹⁴⁰ First, the company’s (1998, p.42) corporate objective was “to maximise shareholder wealth”. Second, the company had a strong emphasis on rewarding individual performance or meritocracy. They (1998, p.2) stated:

“Macquarie seeks to recruit the best people... [but] advancement and remuneration are based solely on merit... While the basis of advancement and remuneration is individual merit, this is not inconsistent with teamwork; indeed, the best performing individuals are those are team players.”

Third, the executive chairman’s and managing director’s joint statement argued that the company’s remuneration scheme gave employees’ downside risk and was tied to shareholders’ returns. They (1998, p.4) stated:

“Employment costs continue to be the Bank’s major expense. These costs include a significant performance component that is linked to overall profitability. The remuneration system at Macquarie Bank helps to provide consistent returns to shareholders. Employees absorb much of any volatility of the Bank’s financial performance. This system differs markedly from the practice of the United States’

¹³⁹ The ‘integration’ schemes award executives for achieving operational and cost-savings targets following the merger of Commercial Union and General Accident to form CGU in mid-1998.

¹⁴⁰ Macquarie Bank (AU, 1998) was selected from the full sample, not the sub-sample. It was selected because of its very strong emphasis on pay-for-performance.

investment banks where historically shareholders absorbed most of the volatility of earnings, not employees.”

Further, they (1998, p.10) argued:

“Our remuneration system is heavily performance-oriented; all staff are eligible for share options. The Board regards the remuneration system as a key driver of the Bank’s success.”

This line of reasoning was unique among the companies’ sampled and represents a strong belief in the pay-for-performance principle. However, the case for Macquarie Bank (AU) as an exemplar of Investor Logic is weakened for two reasons. First, there was limited disclosure on executive remuneration in the company’s annual report. While Macquarie Bank appeared to have a standard remuneration package for executives, there was no disclosure of the targets and performance measures on which short- and long-term incentive were dependent. Second, the independence of the board and remuneration committee was questionable because the board was comprised of three executive directors (including an executive chairman, who was one of the company’s founders) and six non-executive directors (including a major shareholder), and the remuneration committee was chaired by the executive chairman.

Brierley Investments (NZ, 1998) represents an exemplar of Investor Logic only because of the new chairman’s statement in the annual report. The company’s directors faced a major legitimacy crisis prior to the release of its 1998 annual report. In 1998, Brierley Investments’ share price was NZ\$1.22 on 5 January, NZ\$0.34 on 25 September after reporting a NZ\$904 million loss, and NZ\$0.43 on 31 December. In the history of NZ listed companies, BIL’s \$904 million loss is second only to Air New Zealand’s \$1,425 million loss in 2001. Further, the old chairman and CEO had been demised in late April. The news of the old CEO’s NZ\$4 million redundancy payment accelerated the decline in Brierley Investments’ share price (Parker, 9 May 1998). Facing NZ’s largest ever corporate loss at the time, the release of Brierley Investments’ 1998 annual report was the board of directors’ last chance to present a credible recovery plan to shareholders. At the beginning of the annual report, the new chairman drew on Investor Logic to craft his recovery plan. The third page of Brierley Investments’ (NZ, 1998, p.1) annual report outlined the recovery plan (in a very large bold font):

“Shareholders can expect to see a BIL [Brierley Investments Limited] in the future with improved corporate governance, clear lines of authority between the

Board and management, executive remuneration inextricably linked to our performance and an investment strategy”

In the body of the new chairman’s statement, he described a number of proposed changes including a new incentive scheme and new corporate governance structure (i.e. majority independent directors). The agency principle was used to justify the adoption of Economic Value AddedTM as a performance measure:

“To ensure a congruence of shareholder and management interests, it is the Board’s intention to introduce Economic Value Added (EVA) performance measurement principles. BIL retained EVA specialists Stern Stewart & Co to advise it on an incentivisation scheme that aligns executive remuneration with shareholder returns” (p.6)

He argued that this would be beneficial for shareholders because management “will share in the downside” (p.6), although management not receiving a bonus is not the same as shareholders’ losing their capital:

“To encourage management to achieve returns in excess of the risk-adjusted growth rate, incentive compensation will be linked directly to the management team’s achievement of wealth creation targets. If management fails to create wealth for shareholders, it will share in the downside.” (p.6)

Reflecting on the proposed change, the new chairman’s penultimate sentence of his statement was: “Management and shareholder interests will be aligned, with management remunerated relative to the wealth it creates for our shareholders” (p.14). The new chairman’s statement was followed by another full page quote (in a very large bold font): “Ultimately it is performance that shareholders demand, and the Board is intensely aware of the need to deliver” (p.15). The new chairman had also announced his intention to resign at the 1998 annual general meeting. Certainly the new chairman’s rhetoric was consistent with Investor Logic only. However, as Brierley Investments (NZ) disclosed few other details of their executive remuneration practices in any of its previous or subsequent annual reports, a definitive conclusion cannot be drawn. Further, judging the success of Brierley Investments’ 1998 annual report in defending the directors’ legitimacy is subjective. Three non-executive directors were not re-elected at the 1998 annual general meeting, but the company continued to operate.

6.3.4. Both Corporate Logic and Investor Logic

As has been shown in Section 6.2, both Corporate Logic and Investor Logic were embedded in the discourse of code issuers and companies. The remuneration principles (except the fairness principle) were widely diffused in the sub-sample of codes and corporate annual reports. The remuneration principles were tied to various executive remuneration practices. Further, the standard remuneration package for executives was recommended by most code issuers and adopted by most companies. However, Investor Logic was stronger than Corporate Logic. For code issuers, their recommendations focused on short- and long-term incentive schemes. For example, the Financial Reporting Council's (UK, 2003, 2006, 2008, 2010) code included an appendix on designing performance-related remuneration schemes. This is not surprising as several code issuers were representatives of investors (e.g. UK: ABI and Hermes; AU: Australian Shareholders' Association and IFSA). For companies, the fairness principle was not tied to their executive remuneration practices and there was much emphasis on short- and long-term incentive schemes for executives. Most companies conceptualised executives as being motivated by extrinsic rewards (cf. Associated British Foods, UK, 1998).

6.3.5. No Logics

In contrast to both Logics, there were no exemplars of codes or corporate annual reports in which no Logic was embedded. Certainly, there were many codes and corporate annual reports in the sub-sample which included very few words on executive remuneration. For example, Bosch (AU, 1991, 1993, 1995) discussed corporate governance in much detail and the third edition (58 pages) was almost three times longer than the first edition (22 pages), but there was scant discussion of executive remuneration.¹⁴¹ Similarly, NZX's (NZ, 1994, 1999, 2003, 2009) listing rules did not discuss executive remuneration in any depth (see Section 6.3.3). Most UK 1989 annual reports, AU 1998 annual reports, and NZ 1998 and 2007 annual reports included scant narrative disclosure on executive remuneration. However, most corporate annual reports included enough disclosure to infer that executives received the standard remuneration package (e.g. salary, pension, short-term incentives and long-term

¹⁴¹ Bosch (AU, 1991, 1993, 1995) recommended that non-executive directors "to act in the interests of the general body of shareholders rather than any sectional interest" (1991, p.5). Bosch also recommended that independent non-executive directors should determine executive remuneration, and executive remuneration should be fully disclosed to shareholders. While Bosch did not include any remuneration principles, it also did not include any alternative principles.

incentives). For example, Brambles Industries (AU, 1998, p.25) did not disclose its remuneration policy but did state:

“The remuneration of the Chief Executive, Finance Director and the three regional Managing Directors is reviewed annually by the non-executive members of the Board in the light of Brambles’ performance and advice from independent international remuneration consultants.”

Further, they (1998, p.65) stated that, “Total remuneration, include[s] salary, bonus, superannuation, retirement payments and other benefits...” and that executive directors participated in the employee share option plan.

Some companies had even less remuneration disclosure. For instance, EBOS (NZ, 2007, p.25) mentions that the CEO’s remuneration package includes “Salary [and a] performance bonus and other emoluments”. No alternative remuneration principles were identified, although many companies did justify their remuneration policies by citing the use of remuneration consultants. On the whole, there appears to be no alternative Logics.

6.4. Conclusion

Both Corporate Logic and Investor Logic were embedded, to varying degrees, in the discourse on executive remuneration of code issuers and companies. There was a standard remuneration package for executives that has become increasingly complex over time, but was always justified with multiple remuneration principles. While there was variation in code’s recommendations and companies’ practices, it was a case of variation in form, not substance. The standard package had become taken-for-granted. Further, both Logics were able to co-exist in the discourse because Corporate Logic was weak or symbolic (the fairness principle was not tied to executive remuneration practices). Also illustrating that both Logics were embedded in the discourse, there were few exemplars of codes and corporate annual reports that were entirely consistent with Corporate Logic only or Investor Logic only. However, there was still tension between Corporate Logic and Investor Logic. The human resources/market principles may conflict with agency/pay-for-performance principle if the change in the median level of remuneration changes at a different rate to firm performance. This tension was not addressed by code issuers and companies.

The main similarity between codes and corporate annual reports was that most of the narrative on executive remuneration was concerned with short- and long-term incentives. The main

difference was that codes' recommendations were non-specific and brief, whereas companies' descriptions were high nuanced and lengthy (particularly in AU and UK 2007 annual reports). Further, the main similarity between AU, NZ and UK organisational texts was that they had a common language for conceptualising executive remuneration with a strong emphasis on performance-based remuneration. The main difference was that AU and UK texts had much lengthier narratives on executive remuneration (except UK 1989 annual reports and AU 1998 annual reports) than NZ texts. In addition, the main similarity between the oldest and most recent organisational texts was that, once again, there was a common language. More recent texts appeared to be developed from (or built on) older texts. For codes, there were no major differences. For companies, the main trend was that their executive remuneration practices began increasingly complex over time. By 2007, most AU and UK companies had adopted multiple short- and long-term incentive schemes and there were no companies left that rejected performance-based remuneration (e.g. Associated British Foods, UK, 1998). Thus, while Investor Logic and Corporate Logic co-exist in organisational texts, Investor Logic is stronger than Corporate Logic.

The substantive and symbolic nature of the code issuers' recommendations and companies' practices was not discussed in any depth in the chapter. It appears that the remuneration principles (except the fairness principle) represent code issuers' and companies' shared understanding of executive remuneration. However, whether or not code issuers' and companies' public discourse was decoupled from their private discourse is not unknown. There were two examples of corporate annual reports, Brierley Investments (NZ, 1998) and Westpac (AU, 1998), where the companies attempted to obviously influence the readers' impression of the companies. This is reminiscent of Ashforth and Gibbs' (1990, p.177) "overacting actor[s]... [that] overstate claims to legitimacy or overreact to faults." Certainly, all of the codes and corporate annual reports were meticulously crafted texts that were designed to persuade readers of the rationality and legitimacy of their recommendations and practices, respectively. Therefore, the next chapter presents an analysis of the private discourse on executive remuneration, and then Chapter 8 discusses the extent to which Corporate Logic and Investor Logic are substantively or symbolically embedded in the public and private discourse.

Chapter 7: Remuneration Decision-Making in the Boardroom

7.1. Introduction

This chapter addresses Research Question 3: How, if at all, do Corporate Logic and Investor Logic influence the thinking and decision-making of NZ organisational actors with respect to executive remuneration? Multiple aspects of remuneration decision-making in the boardrooms of New Zealand (NZ) companies that are listed on the NZX (or NZ Stock Exchange) are investigated. Particular attention is given to the Remuneration Committee (RemCo). In doing this, interviews with 5 executives, 16 non-executive directors, 7 remuneration consultants and 5 code issuers were conducted. The findings from these interviews are reported in this chapter. Interviewees' names are not disclosed and, therefore, the quotes presented have been heavily edited. Quotes are presented in *italics*. While all of the interviewees' transcripts were analysed, most of the quotes presented are attributed to non-executive directors (who are the decision-makers) and executives (who are the subject of those decisions).¹⁴² Drawing on Chapter 5's findings, it had been conjectured that code issuers, or at least the codes they produce, would have a significant influence on how remuneration decisions are made and reported. However, code issuers are rarely quoted because they are not as influential as had been expected (see Chapter 4, Section 4.6.4).

The chapter is organised as follows. A background on executive remuneration in NZ is presented in the Section 2. Drawing on newspaper articles on executive remuneration, this section provides context for the chapter's findings. Presented in Sections 3 and 4 are the interviewees' perceptions of what should be the corporate objective and how executives behave, respectively. Inferences are made about what institutional logics of corporate governance are most likely to shape remuneration decision-making in NZ companies. Section 5 examines how various parties influence remuneration decision-making including directors' network and competitors, recruitment and remuneration consultants, investors and analysts,

¹⁴² Executives refer to Chief Executive Officers and Chief Financial Officers, who may also be executive directors; whereas Directors refers to Non-executive Directors. Code issuers refer to representatives of entities that have produced at least one code, and Consultants refer to recruitment and remuneration consultants. Further, passages in this chapter that refer to 'Executives', 'Directors', 'Code issuers' and 'Consultants' with a capital 'E', 'D', 'C' and 'C' respectively, denote the interviewees.

regulators and code issuers, media, and employees, customers and suppliers. Remuneration principles are discussed both individually and as a set in Section 6. Remuneration practices that are both used and endorsed by non-executive directors are described in Section 7. Remuneration processes are considered in Section 8. Also discussed in Sections 6, 7 and 8 is the extent to which Corporate Logic and Investor Logic are embedded in remuneration principles, practices and processes. Concluding comments are made in the final section.

7.2. Background on Executive Remuneration in New Zealand

Executive remuneration in NZ has been a newsworthy topic for the following reasons. First, due to the Companies Act 1993's disclosure requirements, CEO pay has made headlines since the mid-1990s (e.g. "Salary disclosure jumps the gun – Steel and Tube Holdings", 20 October 1995, "Telecom top man's salary package tops \$1 million", 21 June 1996). Second, CEOs are among the highest paid individuals (Atkinson and Leigh, 2005). Third, CEO pay tends to increase faster than average worker pay (Roberts, 2005). Fourth, New Zealand's egalitarian culture conflicts with a significant differential between CEO pay and average worker pay ("Public Envy No. 1", 30 September 1996; "Paying for performance", 7 October 2006). Fifth, a few CEOs have received multi-million dollar severance payments or 'golden parachutes' ("CEO remuneration – who gets what", 13 November 2002). Sixth, due to the international trend for executives to receive an ever-increasing proportion of performance-based or at-risk remuneration ("Accountability now part of executive package", 10 October 1990; "Performance pay need highlighted", 2 June 1997; "Pay for performance", 4 April 2003). Seventh, CEO pay often does not appear to be related to firm performance (Bennett, 18 August 2000; "Performance must be basis of chiefs' pay", 19 February 2008; "Executive pay out of control", 13 May 2009). However, executive remuneration is less controversial in NZ than in other countries such as Australia (AU), the UK and the US.¹⁴³

¹⁴³ As shown in Chapter 5, there are few corporate governance codes in NZ compared to AU and the UK. Further, to assess the media's interest in executive remuneration (as a proxy for the public's interest), newspaper articles on executive remuneration are counted. Data were collected from the Factiva database. The search included the following keywords: (Director or Executive or CEO) and (remuneration or compensation or pay) and (salary or salaries or incentive or bonus or share options or stock options). The average number of newspaper articles on executive remuneration per year were as follows:

Newspaper	1986-1989	1990-1999	2000-2009	Average (Total)
NZ: NZ Herald	1	4	10	6 (150)
AU: Sydney Morning Herald	4	9	18	12 (289)
UK: The Times (London)	20	51	65	51 (1232)
US: The New York Times	6	18	41	26 (612)

These results show growing media interest in executive remuneration, but there is much less media interest in NZ compared to other countries.

Executive remuneration packages for executives are broadly homogenous amongst publicly listed companies in most countries (Gomez-Mejia et al., 2010). The standard package includes salary and benefits, pension, short-term incentives and long-term incentives (see Chapter 3, Table 3.4). The key differences between CEO pay in NZ and other countries are NZ CEOs receive lower proportions of variable remuneration (Bryan et al., 2006; Fernandes et al., 2009); and NZ CEOs receive lower absolute and relative levels of total remuneration (Fernandes et al., 2009; Michel et al., 2008). Thus, NZ companies have a conservative approach to performance-based remuneration relative to their international counterparts, despite repeated claims that NZ companies are following international trends (“New Zealand Firms embrace incentive rewards”, 26 June 1990; “NZ lags well behind US on performance pay for CEOs”, 15 September 1995; Bennett, 18 August 2000; “NZ now attracting more executives than losing them - report”, 15 September 2003; “Performance-based pay for executives works”, 11 April 2009).¹⁴⁴ For example, the National Business Review (“NZ lags well behind US on performance pay for CEOs”, 15 September 1995) reported that, “...the base salary of chief executives in New Zealand represents 88% of total remuneration compared with... only 25% in the US”; and then the NZ Herald (“Performance-based pay for executives works”, 11 April 2009) reported that, “In the US it is common for up to 60 per cent of a remuneration package to be linked to performance. In New Zealand that is closer to 15 per cent.”

There is a small body of research on CEO pay in NZ listed companies. In a study of 73 companies from 1994 to 1998, Elayan et al. (2003) found a significant positive relationship between CEO pay and firm size, but not firm performance. Similarly, Andjelkovic et al. (2002) found a significant positive relationship between CEO pay and firm size, but not firm performance, in a study of 49 companies in 1997.¹⁴⁵ In contrast, Gunasekaragea and Wilkinson (2002) found a significant positive relationship between CEO pay and both firm performance and size in a study of 36 companies from 1998 to 2000.¹⁴⁶ Further, in a sample

¹⁴⁴ There are signs that the trend towards performance-based remuneration may be slowing amongst NZ listed companies. For example, the NZ Herald (“More chief executives refusing performance pay deals”, 24 March 2005) reported that, “More chief executives refusing performance pay deals... Recruitment company Sheffield's chief executive survey found about 60 per cent of chief executives now have a performance component to their pay packages, down from 69 per cent last year.”

¹⁴⁵ However, Andjelkovic et al. (2002) also found that a significant relationship between CEO pay and firm performance amongst companies who voluntarily disclosed information on executive remuneration prior to the introduction of mandatory disclosure.

¹⁴⁶ Gunasekaragea and Wilkinson (2002) measured CEO pay as cash remuneration plus the change in the value of the CEO's shareholding, and measured firm performance using total shareholder return (previous three years, previous year and current year) and Tobin's Q (current year). This leads to a problem of endogeneity because

of 473 firm-years from 1997 to 2002 (approximately 79 companies), Roberts (2005) found that the sensitivity of CEO pay to firm performance is low but has increased over time.¹⁴⁷ Finally, in a study of 112 companies from 2001 to 2005, Jiang et al. (2009) found a significantly positive relationship between CEO pay and firm performance, but only if ownership concentration was low. These findings are consistent with international research on CEO pay (see Chapters 2 and 3) in that those companies using performance-based remuneration do not produce superior shareholder returns to those companies that do not.

Despite the lack of empirical support, the NZ media expressed a belief that CEO pay should be related to firm performance (McBride, 26 June 1992; “Performance pay need highlighted”, 2 June 1997; “CEO remuneration – who gets what”, 13 November 2002; “Executive pay out of control”, 13 May 2009). Many of the headlines in NZ newspapers concern CEOs who are paid more than one million dollars, particularly following the introduction of the Companies Act 1993’s disclosure requirements (“Telecom top man’s salary package tops \$1 million”, 21 June 1996; “Fletcher boss confirms \$1.08m annual salary”, 26 September 1996); and CEOs that have supposedly been rewarded for failure, e.g. golden parachutes (“CEO remuneration – who gets what”, 13 November 2002; Fox, 12 July 2003).¹⁴⁸ More recently, Paul Reynolds’ salary and bonus of \$5 million at Telecom Corporation of NZ Ltd attracted much media attention, particularly as Telecom’s share price had significantly declined at the time (“Telecom boss Reynold’s total pay package tops \$5m”, 25 August 2009; “Air NZ chief exec incentive payment \$1.24m”, 25 August 2009).¹⁴⁹ Such examples of media interest in CEO pay are typical in many countries around the world (Core et al., 2008; Dyck and Zingales,

the measurement of both CEO pay and firm performance includes the change in share price for (part of) the same period.

¹⁴⁷ Roberts (2005) also found that CEO pay is also increasing at a faster rate than increases in shareholder returns and average worker pay, and that listed companies with powerful CEOs had lower CEO pay to firm performance sensitivity, where powerful CEOs are Chairman of the Board and/or a member of the Remuneration Committee. In contrast, Boyle and Roberts (2012) found that CEOs who are members of the Remuneration Committee received lower annual increments in pay than those who are not in an expanded sample of 114 listed companies from 1998 to 2005.

¹⁴⁸ For example, \$4 million for Paul Collins at Brierley Investments Ltd (Parker, 9 May 1998); \$2.5 million for Paul Anthony at Contact Energy Ltd (“Contact confirms CEO Anthony paid golden \$2.5 million bonus”, 30 November 1999); \$2.2 million for James Boonzaier at Tower Ltd (“CEO remuneration – who gets what”, 13 November 2002); \$4.2 million for Gary Toomey at Air NZ Ltd (Van den Bergh, 5 September 2002); and \$1.8 million for Theresa Gattung at Telecom Corporation of NZ Ltd (“Richer than ever before executive pay survey”, 22 March 2008).

¹⁴⁹ Surprisingly, in NZ corporate history, the most significant remuneration scandal concerns directors’ fees, not CEO pay. Contact Energy Ltd (or Contact) had planned to double their directors’ fees to \$1.5 million. At the 2008 Annual General Meeting (or AGM), angry shareholders (many of whom were customers) told directors that they had their “snouts in the trough”. As a result, directors’ fees were not doubled, but Contact’s reputation had already been damaged and they lost 41,000 customers in the following months (“A billion thanks for top chief executive”, 15 Aug 2009).

2002). However, the representativeness of the NZ media's views is questionable as many articles are based on interviews with remuneration consultants and the NZ Shareholders' Association.¹⁵⁰ There also appears to be a tendency for the NZ media to sensationalise CEO pay.¹⁵¹

Since 1993, NZ Regulators have not changed the remuneration disclosure requirements, despite the media's headlines and some CEOs being supposedly rewarded for failure. The Companies Act 1955 and 1993 requires listed companies to seek shareholders' approval for directors' remuneration and schemes that issue shares, options or rights to employees. Also, the Companies Act 1993 requires listed companies to disclose how much each director is paid and the number of employees who earn more than \$100,000 in bands of \$10,000. Listed companies did not have to begin disclosing until 1997, although some were early disclosers (Andjelkovic et al., 2002). Further, listed companies are also jointly regulated by the FMA (Financial Markets Authority, formerly, Securities Commission) and the NZX (formerly, NZSE or NZ Stock Exchange). The FMA/Securities Commission and NZX has never required listed companies to disclose any additional information on remuneration, although the NZX (2004, p.2) does require that "Every Issuer [i.e. Listed Company] should have a formal and transparent method to recommend Director remuneration packages to shareholders."¹⁵² Certainly, NZ has fewer disclosure requirements on remuneration than other Anglo-American and European countries. It may be that NZ Regulators believe that additional disclosure or shareholder approval requirements would not result in improved pay-performance sensitivity. However, Schoenemann (2006) argues that NZ Regulators should adopt the Australian model (e.g. an advisory vote on the remuneration report) to improve pay-performance sensitivity.

Several NZ organisations ('Code Issuers') have produced codes that include principles and recommendations on executive remuneration (Institute of Directors in NZ, 2005; Minter

¹⁵⁰ Most of the newspaper articles cited in this section include comments from remuneration consultants. Many post-2001 newspaper articles cited in this section include comments from the NZ Shareholders' Association.

¹⁵¹ For example: "Three Executives' Pay Tops \$1 Million Mark", Kennedy, 10 May 1996; "FCL [Fletcher Challenge Ltd] Defends Chief's Million Dollar Wage", 26 September 1996; "Telecom Pays Deane \$1.93m", 19 September 2000; "Failed CEOs' earnings the highest", 13 November 2002; "Casino's \$3.7m boss eyes glory days", Drinnan, 19 December 2007; "Telecom's \$5 Million Man", Drinnan, 25 August 2009; and "Air NZ chief exec incentive payment \$1.24m, 28 August 2009.

¹⁵² However, the NZX introduced a new listing rule on 1 December 2002: "The annual report of an Issuer shall contain... a statement of any corporate governance policies, practice and processes, adopted or followed by the Issuer" (NZSE, 2002, p.10-9). This listing rule encourages listed companies to increase their remuneration disclosure, although it is non-specific in what should be disclosed.

Ellison, 2003; NZX, 2004; Securities Commission, 2004b) as well as official reports that include some discussion on executive remuneration (Institute of Chartered Accountants of NZ, 2003; NZ Shareholders' Association, 2004). NZ codes and official reports are similar to international codes and official reports (see Chapter 5), although NZ codes and official reports include less discussion and few principles and recommendations on executive remuneration. Also, compliance with NZ codes is voluntary.¹⁵³ Some NZ listed companies are listed on more than one stock exchange and, therefore, may be required by other stock exchanges' listing rules to disclose additional information on executive remuneration.¹⁵⁴ The extent to which NZ listed companies comply with NZ codes (and international codes) has rarely been studied.¹⁵⁵ However, evidence presented by Bhuiyan and Salma (2011), Reddy (2010) and Teh (2009) indicates that NZ codes have influenced NZ listed companies' decision to adopt a remuneration committee, and compliance results in improved firm performance, although the authors acknowledge that these effects are small. Further, Chapter 5 shows that NZ codes and corporate annual reports have a shared language on executive remuneration.

Collectively, Chapters 5 and 6 and this section highlight what is and is not part of NZ public discourses on executive remuneration.¹⁵⁶ Corporate Logic appears to be embedded in these discourses because NZ Regulators trust directors and executives to a greater extent than their international counterparts (as evidenced by NZ's minimal disclosure requirements on executive remuneration that have not changed since 1993); and NZ Listed Companies have a

¹⁵³ Listed companies do have to comply with the NZX's (2004) *Corporate Governance Best Practice Code*, but its requirements for executive remuneration are not mandatory: For example, NZX (2004, p.2, emphasis added) states that, "Directors are *encouraged* to take a portion of their remuneration under a performance-based Equity Security compensation plan..."

¹⁵⁴ Of the largest NZ Listed Companies, many are listed on the Australian Stock Exchange (ASX) and a few are listed on the London Stock Exchange (LSE). While these companies often disclose additional information about executive remuneration, they can avoid additional disclosure requirements because companies that are not headquartered in Australia or the UK do not have to comply with Australia's Corporations Act 2001 or the UK's Companies Act 2006 (i.e. they do not have to produce a remuneration report) and are exempt from most of the ASX's and LSE's listing rules. Also, companies can choose not to comply with the ASX's and LSE's codes because these codes have 'comply or explain' approaches.

¹⁵⁵ There have been three studies of NZ codes. First, in a study of 90 companies in 2003 and 2007, Teh (2009) found that, following the issuance of NZX (2004), companies who formed a remuneration committee had a higher return on assets in 2007 compared to 2003. Second, in a study of approximately 100 companies from 1999 to 2007, Reddy (2010) found that, following the issuance of Securities Commission (2004b), of the companies that complied, smaller (larger) companies experienced a decrease (increase) in firm performance. Third, in a study of 70 companies from 2000 to 2007, Bhuiyan and Salma (2011) found that NZX's (2004) and Securities Commission's (2004b) codes pressured companies into establishing a remuneration committee.

¹⁵⁶ There may be multiple discourses on executive remuneration in the sense that directors, executives, investors, media, regulators, etc. have different perceptions of executive remuneration which may or may not be coalescing and intersecting (e.g. investors and directors may have a shared discourse because they communicate with each other on a regular basis).

conservative approach to executive remuneration relative to their international counterparts (i.e. less use of performance-based remuneration and a lower proportion of variable remuneration). For example, a remuneration consultant commented that, “Money is not the best way to motivate... New Zealand organisations have had mixed success in implementing incentive schemes” (“Paying for performance”, 7 October 2006). Investor Logic also appears to be embedded in these discourses because investors believe that executives can influence firm performance and expect that executive remuneration will vary with shareholder returns (Chiu and Monin, 2003); and the language of pay-for-performance is found in newspaper articles (see above), codes and corporate annual reports (see Chapters 5 and 6). Therefore, it is expected that both Corporate Logic and Investor Logic will be embedded in the private discourse of executives, non-executive directors, remuneration consultants and code issuers.¹⁵⁷

7.3. Corporate Objective

The corporate objectives that Executives and Directors¹⁵⁸ believe should be (normative) and are (descriptive) pursued are discussed in this section.¹⁵⁹ Recall that shareholder value maximisation¹⁶⁰ is consistent with both Corporate Logic and Investor Logic; whereas, stakeholder value maximisation is consistent with Political Logic and Stakeholder Logic (see Chapter 2). Further, there are other possible corporate objectives: Revenue and/or profit growth, gain and maintain organisational prestige,¹⁶¹ or realise an intended corporate strategy. Generally, Executives’ and Directors’ perceptions of the corporate objective tend to map onto

¹⁵⁷ Interviews with these parties are used as a proxy for private discourse because it is not possible to gain access to these parties’ private worlds (e.g. board meetings). Further, there may be symbolic aspects of Corporate Logic and/or Investor Logic (i.e. private discourse may be decoupled from public discourse). Substantive and symbolic aspects of Corporate Logic and Investor Logic are discussed in several of the remaining sections in this chapter. Finally, both Stakeholder Logic and Political Logic are not expected to be embedded in private discourse on executive remuneration because of the near absence of non-shareholding stakeholders in the public discourse (e.g. newspaper articles, codes and corporate annual reports).

¹⁵⁸ Executives refer to Chief Executive Officers and Chief Financial Officers, who may also be executive directors; whereas Directors refers to Non-executive Directors. Further, passages in this chapter that refer to ‘Executives’ and ‘Directors’ with a capital ‘E’ and ‘D’, respectively, denote the interviewees.

¹⁵⁹ Code Issuers and Consultants expressed a similar range of views to those of Executives and Directors. However, Code Issuer B commented that, “...*business will not exist unless it gives return to its shareholders and unless it gives value to its customers.*” This perspective is partially consistent with stakeholder value maximisation because these two stakeholders are seen as separate ends, but other stakeholders are still excluded as separate ends.

¹⁶⁰ Shareholder value maximisation may also be *enlightened* in that non-shareholding stakeholders are conceptualised as a means to an end (Jensen, 2001; Lok, 2010; Sundaram and Inkpen, 2004a). In this respect, companies cannot take advantage of non-shareholding stakeholders in the short-term to maximise shareholder value in the long-term, but they still do not intend to maximise non-shareholding stakeholder value in the long-term.

¹⁶¹ Prestige is a function of legitimacy, reputation and status (Deephouse and Suchman, 2008).

two corporate objectives: Growth and shareholder value maximisation. For example, Director L believes that the corporate objective is: *“Good shareholder growth... and that comprises... share price growth and dividend growth.”* Of course, corporate strategy is an integral part of realising these corporate objectives. To illustrate, Executive B described how the company’s plans (i.e. corporate strategy) and remuneration schemes are focused on shareholder value. Further, stakeholder value maximisation is seldom advanced as the corporate objective. Indeed, Executives and Directors rarely mentioned non-shareholding stakeholders during the interviews.

Many of the Directors and Executives indicated that their ideal and intended corporate objective is growth, although there are multiple definitions of growth including revenue, profit, dividends and/or share price growth. For instance, Executive A stated that *“...the intentions... [are:] business [or revenue] will be doubled and the profit will be doubled.”* These growth objectives are incorporated into companies’ strategic (or multi-year) and business (or annual) plans, and targets that are linked to executives’ short-term and long-term incentives. Summarising the rationale for doing this, Director L explained:

“[T]he theory is: when you’re [executives are] taking your short-term decisions you won’t compromise... where the company might be in three to five years time because otherwise you might compromise the value of your shares. So it’s how you get a balance in executives’ minds [using] the different components of remuneration... [This will ensure that] you’ve got sustainable growth of earnings.”

However, Directors and Executives have different perceptions of the relationship between short-term and long-term growth. While some Directors argued for a balance between short-term (this year) and long-term (3-5 years) results, Executives were focused on short-term results. Executive E detailed the relationship between short-term and long-term results:

“[Y]ou are literally clock reset every Monday morning, so unless you sell more this week... then you are not going to get your targets. So, what that drives is an obsession with growth all the time, which is not unhealthy... You can say it is quite short-term focused, but in that business... it’s just that little bit every day [that] creates this longer term momentum.”

Similarly, Executive A believed that remuneration schemes and share markets reinforce this focus on short-term results:

“There’s no question: Most employees are driven by the short-term scheme. They are very focused on their short-term results. You have to! In our world, if you missed a year’s [forecast] results, [then] the share market is highly critical. And

everyone says companies are too short-term focused, [but] the shareholders make us that way and quite rightly so! I'm all in favour, I'm not critical at all... the long-term is just a whole bunch of short-terms."

Executives and Directors also expressed that the corporate objective is shareholder value maximisation. For example, Director G stated that, "...*what the board actually [does] is to create and sustain shareholder wealth.*" While shareholder value maximisation is conceptually different to growth, Executives and Directors tended to define shareholder value maximisation in terms of growing earnings per share, dividends and, ultimately, the share price. Further, Executives and Directors also described that long-term incentives are geared towards shareholder value. Having a shareholding means that executives and shareholders have common interests, i.e. they share risks and returns.¹⁶² To illustrate, Director K explained why executives received share options, "*We felt that... driving shareholder value over time was going to be a shared effort and we wanted to ensure that our key employees feel they have skin in the game.*" Further, Directors believed that shareholder value maximisation involves a long-term, not short-term focus. As a case in point, Director K avowed, "*You are trying to align the reward regime... with the lift over time in shareholder value. It's not just quarter-by-quarter, but over time lifting value.*" However, as explained above, Executives and Directors had different perceptions of how the short-term and long-term are interrelated.¹⁶³

Executives and Directors did not believe that stakeholder value maximisation should be or is the corporate objective. As illustrated by Director B, who affirmed what is and is not the corporate objective:

"[A] focus on what does deliver value to shareholders, which is share price growth and income stream from dividends... And I don't yet buy the notion that the [non-shareholding] stakeholders have the same stake in the company as the owners..."

¹⁶² However, executives and shareholders are not likely to have the same interests because shareholders can diversify their investment portfolios, while executives have most of their wealth tied to one company. Also, all shareholders may not have the same interests because of varying investment time horizons and risk preferences (Hendry et al., 2006; Lok, 2010).

¹⁶³ For example, Executive E claimed executives in a particular company had a focus on increasing the share price in the short-term (or on an annual basis): "*I mean that whole business was driven around hitting targets, bouncing up share price growth with bottom line performance... Everything is timed down to days when announcements are made... to maximise profitability and to maximise the impact it [i.e. announcements] have on the market. You can sit back and say, 'Is it right or is it wrong?' In most cases, it's just pretty damn good management [particularly] if the aim is to make shareholders as much money as it possibly can.*"

However, non-shareholding stakeholders' interests are considered when Executives and Directors make decisions. Director G cited the example of Contact losing thousands of customers following a proposed increase in directors' fees (see footnote 149) as a reason why boards should account for non-shareholding stakeholders: *"We take account of all our stakeholders. We would be silly not to. So you listen to them... [but] whether it changes what you do, it might..."* Further, Executives and Directors believed that companies do not exist solely for the benefit of shareholders. Director O argued that, *"[For] most Chief Executives... the first objective is the business, but most of them would want to grow the business in a way that is useful to the wider communities in which they operate."*

While Executives and Directors did not deny the importance of non-shareholding stakeholders (e.g. customers and employees) to companies, they perceive non-shareholding stakeholders as the means to the end of shareholder value. Some Executives and Directors mentioned performance measures that are related to relationships with customers (e.g. brand recognition, customer satisfaction and market share) and employees (e.g. employee satisfaction, health and safety, leadership and organisational culture). This is because they believe that satisfying non-shareholding stakeholders will result in improved financial performance. However, most Executives and Directors described that financial performance measures were the main determinant of short-term and long-term incentives. Common financial performance measures included revenue, profit, cash flow, return on capital, economic value added, earnings per share and total shareholder return. As a case in point, Director N, who also emphasised shareholder value maximisation as the corporate objective, maintained:

"Typically you would be looking at things like profit... market share... cash flow [and] product development... You may think it's important to acquire or sell a business... you can take that into account. There's got to be numbers [that] reflect the key drivers of the business and what you want people to work on."

Corporate Logic and Investor Logic, but not Stakeholder Logic and Political Logic are consistent with Executives' and Directors' views. This is because there is a strong consensus among Executives and Directors that the corporate objective should be and is shareholder value maximisation. Emphasising this point, Director J declared, *"I'm driven as a board director of a conventional commercial enterprise by [shareholder] value maximisation; that is not the same as profit maximisation."* During the interviews, Executives and Directors rarely mentioned non-shareholding stakeholders. Further, support for shareholder value

maximisation is reflected in Executives and Directors choice of performance measures (as above) and rationales for using incentive schemes (see Section 7.6). However, there are varied opinions among Executives and Directors concerning how to practice shareholder value maximisation. Many performance measures were mentioned. This is illustrated by Director A, who asserted, *“I don’t really believe in market-based returns... [It is] outside the chief executives’ [control and]... depends on market factors... [I prefer] something... more objective like earnings per share.”* Also, many time frames were mentioned. As noted above, Executives have a short-term focus relative to Directors. This variability in how shareholder value maximisation is implemented highlights that both Corporate Logic and Investor Logic may be embedded in the discourse on executive remuneration.¹⁶⁴

7.4. Behavioural Models of Executives

Behavioural models of executives are discussed in this section. Recall that executives are characterised as self-interested agents under Investor Logic and trustworthy stewards under Corporate Logic (see Chapter 2). Agents are extrinsically motivated, while stewards are intrinsically motivated. This is a simplistic view of human behaviour. It may be that people are both extrinsically and intrinsically motivated, where some are more extrinsically or intrinsically motivated than others (Furnham, 2005). In other words, there may be a continuum of motivational profiles from pure agent to pure steward, and people are distributed in some manner along this continuum. This is illustrated by Director B, who wryly remarked, *“[S]ome people aren’t motivated by money and some people are. They [the former] are some that are most difficult CEOs... they keep giving the money back.”* Further, people may lose intrinsic motivation as the level of potential extrinsic rewards (e.g. monetary incentives) increases (Frey, 1997; Frey and Osterloh, 2005). This means that motivation is not a simple product of intrinsic and extrinsic motivation. However, such a conceptualisation is inconsistent with the opinions of interviewees. Instead, interviewees conceptualised executives as being motivated by multiple factors including money, status, (personal and company) reputation, challenge, enjoyment and intellectual curiosity.

Executives and Directors recognised that human behaviour is complex in that different executives are motivated by different factors and these factors can change over time.

¹⁶⁴ As noted in Chapter 2, Table 2.3, Corporate Logic is consistent with internal (or accounting) measures of firm performance (e.g. return on investment), whereas Investor Logic is consistent with external (or market) measures of firm performance (e.g. total shareholder return).

Typically, executives want to achieve certain career goals within a specific time period. Summarising, Executive A noted, “...it depends where you are in life.” The interviewees gave several examples of executives who were not overly concerned with remuneration because their career goal was to become a CEO, but they also gave several examples of executives who were very concerned with remuneration. Director C stated, “*There are certain executives who are completely driven by remuneration, [and] there are some executives [who] aren’t. There is no one [standard] answer on remuneration.*” Further, the interviewees explained that remuneration is not necessarily the most important factor to executives when deciding what jobs to do. As a case in point, Executive B explained his rationale for changing jobs from a low to high potential growth company as follows:

“So you earn a lot of money if you are willing to [stay] but you don’t actually advance your career. You don’t feel very good about it... Crikey, you put a lot of life into this [job]. I would just be de-energized working in that environment.”

Nevertheless, money is a powerful motivator for executives. Most of the Executives and Directors believed that financial incentives influence how executives behave. For instance, Executive C testified, “*Money is the strongest thing on the shelf [and] is the sign of status... I want to get paid as much as I can... You have to give people, especially executives... the incentive to get off your ass and actually perform...*” Similarly, Director K clarifies why a particularly company adopted an executive share option scheme in the 1990s: “*We were genuinely as a board... convinced that the scheme again was a very important motivator.*” Further, the quantum also matters. Large financial incentives are more motivational than small ones. To illustrate, Executive B confessed:

“One year the board decided to give me a double STI. It’s only fifty thousand... it’s not enough money to fundamentally alter your level of motivation. Contrast that [to a larger company]... the amount of money available on STI became very material. One year I got [more than half a million dollars], I think. Then there’s no question: That sort of amount of money motivates your attempts to deliver. No question!”

Consistent with the notion of meritocracy, the interviewees believed that executives should be rewarded for their relative contribution to firm performance. Thus, how much others are paid and the extent to which this is perceived to be tied to their contribution to firm performance can (de-)motivate executives. This is exemplified in Executive A’s remarks:

“[T]he thing that high performers hate most: low performers and when low performers get paid the same as high performers. It is the most de-motivating experience you can ever come across in your life if you are a high performer. If

you are a low performer, you don't mind... If... you pay the high performers and low performers the same, you won't have a high performance organisation."

Generally, Executives and Directors believed that executives are trustworthy professionals. While financial incentives influence how executives behave, executives usually do not make decisions that maximise their (potential) wealth at the expense of long-term firm performance. As a case in point, Director L elucidated:

"I think that remuneration is a motivator... of course, they [executives] do want to become more wealthy, but there's not very many executives I've seen who would sacrifice the long-term position of a company for some just immediate short-term gain for themselves... most of these top executives I worked with have been really quite well balanced... 'Well you have to try to do well today, but we've got to leave the company in good shape for the next... three to five years...' So they won't do things that will actually debilitate the company."

However, the interviewees also provided some examples of executives who maximised their wealth at the expense of the company. For instance, Director L described:

"There is a major company that I was a director of, where I thought there was quite an excessive attention to short-term matters... we exited a business... in order to get a short-term profit. It was driven by the Chief Executive wanting to... make sure they got their bonuses for that quarter... I totally disagreed with the exit and it proved... to be... a very bad exit... I just didn't think the board was strong enough in that matter. The board should have... overridden the management."

In contrast, Executive D was adamant that financial incentives are not required to motivate executives:

"You are basically saying people will hold back from doing the best job they can unless you hang a carrot in front of them. I find that offensive! ...senior executives have an at-risk proportion... [but] I don't think it really changes people's behaviour."

However, this perception was not common. Some interviewees were sceptical of executives who claimed that financial incentives did not influence their behaviour. Instead, they suggested that these executives are worried that they cannot achieve the targets attached to the financial incentives. For example, Executive E postulated:

"Something drives those people... [Sometimes,] you... get people that are not a bastard [sic] or totally driven by the bottom line results. That may be very genuine... [But] I think in a lot of cases, they are driven by this fear of failure."

The interviewees proposed that executives are motivated by extrinsic rewards. Ego, defined as status and reputation, is believed to be an influential motivator. This is illustrated by Director I, who commented, “*Never underestimate... reputation [as a motivator]. CEOs are motivated to be associated with success.*” Similarly, Director E observed that, “*Pay is only part of it. Motivation [is influenced by]... reputation of the company... amongst your community, family and friends...*” Further, the interviewees noted that ego is closely related to how much executives are paid. Drawing on decades of experience, Consultant B generalised:

“With a fair number of chief executives, there is a greed factor. I’ve seen it... I’m careful not to put a pure moral judgement on that. It drives performance. Is that bad? I’m not saying greed is good... It’s not that simple... There is a big ego factor... That’s what got them there. And they want to be rewarded. And it matters how much the other guy gets... So does title and status. It’s all a package.”

The interviewees also believed that executives are intrinsically motivated by challenge, enjoyment and intellectual curiosity derived from the job. For instance, Director D put forward:

“It’s the puzzle really... Decision-making under uncertainty, and trying to get it right... The best CEOs are the ones that are just passionate about business... Those who want to be CEO, they’d do the job for half the pay of being deputy CEO. Of course you would. The job is so fantastic. You’re going to turn it down because of pay? Give us a break.”

The interviewees’ perceptions of how executives behave are partially consistent with both Corporate Logic and Investor Logic because executives are portrayed as both extrinsically and intrinsically motivated. Most executives cannot be classified as either pure agents or pure stewards. Instead, executives are distributed in some manner along a spectrum from pure agent to pure steward. The interviewees portrayed most executives as being trustworthy professionals who want to maximise their wealth but not at the expense of the company. Director N explained how his ideal CEO would behave: “*I would be attracted to someone not pushing their money side hard, interested in doing their job and doing it well, and adding value to the shareholders.*” However, the interviewees acknowledged that financial incentives can motivate some executives to act myopically and put their interests ahead of the shareholders’ interests. This means that boards may not be able to determine how executives behave prior to employing them (see Section 7.7). Nonetheless, Directors prefer executives who are stewards rather than agents and believe executives are more steward-like than agent-

like. Overall, both Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration.

7.5. Influence of Stakeholders

This section examines how various parties influence how the RemCo makes and reports remuneration decisions (see Chapter 3, Figure 3.1). If the RemCo draws on Corporate Logic and/or Investor Logic, then investors' and analysts' opinions are likely to be prioritised ahead of non-shareholding stakeholders' opinions. Also, if the RemCo draws on Corporate Logic, then executives are also likely to be influential. Mimetic pressures in the form of information from the Directors' network, competitors and consultants are also likely to be influential. However, how regulators, code issuers and non-shareholding stakeholders are likely to influence the RemCo has not been thoroughly researched. In the NZ context, regulators and code issuers are not likely to be influential because there are minimal disclosure requirements, no signs that disclosure requirements are likely to change in the near future and code recommendations with respect to executive remuneration are not mandatory. The NZ media may be influential because they have been active critics of executive remuneration (see Section 7.2). Non-shareholding stakeholders such as employees, customers and suppliers are not likely to be influential because they are rarely mentioned by Directors (see Section 7.3). The remainder of this section discusses how these parties influence the RemCo and how Corporate and/or Investor Logic may be reinforced by these parties influence attempts.

7.5.1. Executives

The interviewees recognised that executives have a significant influence on how the RemCo makes decisions for several reasons. First, some directors may adopt the executive's perspective because they are former executives.¹⁶⁵ Second, there is a power imbalance when an executive is hired because the remuneration contract is negotiated after a preferred candidate has been selected (see Section 7.8.1). Third, the RemCo usually relies on its company's human resources department for advice and information, but this department is ultimately controlled by the CEO. Fourth, the executives, not the RemCo, may hire the remuneration consultant. Fifth, the remuneration consultant may be conflicted because they provide data and advice to both the RemCo and the CEO (or human resources department).

¹⁶⁵ This reason does not arise from the interviewees' opinions. Instead, it is observed that 11 out of 16 directors who were interviewed are former executives. Two of these directors are former executives of NZX-listed companies. The remaining nine directors are former executives from various companies such as ASX-listed companies, private companies and multinational companies.

Fifth, there may be an information gap (or asymmetry of knowledge) between executives and directors. This point was illustrated by Executive B:

“The CEO usually does a self-assessment and submits it to them [(i.e. the Board or RemCo)]. And they find that it is very difficult to argue... there’s really an asymmetry of knowledge... CEOs are usually very strong minded. It’s not an easy situation for a Remuneration Committee coz’ they are really part time... they don’t actually know much, in reality, about what’s going on...”

However, the RemCo may not adopt the executive’s perspective because a person’s perspective may change when their role changes from executive to non-executive director. As a case in point, an Executive recalled:

“I think people who don’t actually manage a business might believe hanging a carrot in front of people will make them [executives] perform better, but are they [i.e. people who are not managers] actually doing it? I guess I put a board in that category... When [Person X] was the CEO, [Person X] never had a variable remuneration plan in [Company ABC]. [Person X] objected to it exactly on those grounds [i.e. people are not motivated by financial incentives]... [However, when Person X] became the director... [Person X] thought that’s a good idea [and implemented a financial incentive scheme for executives in Company ABC].

7.5.2. Directors’ Network and Competitors

Directors influence each other. First, during board meetings, directors express and debate their opinions in order to make decisions. This was explained by Director M:

“[T]he boards I’m on listen very carefully to each other. And if someone’s got a view on how to remunerate people... then... [the board] either comes around to their view... or simply disregards it. And the board consensus works, generally, in those circumstances...”

Second, directors’ opinions are influenced by other directors within their personal and professional network. For instance, Director N remarked, *“...you... have a network [where] you can get [information] from some of your colleagues, as a double check on the consultant.”* Third, directors’ opinions are influenced both directly and indirectly by their competitors. There is an indirect influence in that recruitment and remuneration consultants provide the RemCo with intelligence on what their competitors are doing (see Sections 7.5.3 and 7.5.4). Also, there is a direct influence in that directors observe what their competitors are doing (e.g. reading competitors’ annual reports). Director L argued that increased remuneration disclosure requirements has resulted in increased competition for executives and, ultimately, increased pay for executives:

“[R]emuneration [levels], I think, has been aggravated by disclosure... [In the past,] there was no looking across the bloody [sic] fence all the time at what other

people got paid... now, you cannot maintain your competitiveness because everybody else knows what the hell [sic] you're doing... it also means your competitors know what you're paying your best people and they know who your best people are..."

Essentially, the RemCo is influenced by mimetic (e.g. directors' network, competitors and consultants) pressures to make remuneration decisions in a similar way to other RemCos.¹⁶⁶

7.5.3. Recruitment Consultants

Recruitment consultants influence how the Board and RemCo make decisions, particularly which candidates are selected to be executives and their employment contracts. Consultant A described how employment contracts are developed:

"[W]e act as an intermediary [between the board and candidates]... Once it's [i.e. the remuneration package] agreed verbally, that would be put in writing... You've got the job description, individual employment agreement [and] performance agreement."

It appears to be common that the employment contract is negotiated after a candidate has been selected for an executive role. This may give the executive an advantage in negotiating with the RemCo. Further, recruitment consultants are paid a percentage of the executive's remuneration package, which may motivate them to act in the executive's, not RemCo's best interest. For example, Director C commented, *"...recruitment agents [provide the RemCo with] a market value, [but] it will be... [from] the perspective of CEO."*

Similarly, Director I argued:

"[W]hy did the prize [i.e. CEO pay] get so big? Who was benefiting from the prize? Clearly the appointed CEO was benefiting, but I suspect the hidden agent in all of this is the recruitment agency and remuneration consultant."

Recruitment consultants' beliefs are similar to those of executives, directors and others. They believe that executives should be paid comparably to other executives in similar roles (i.e. the market principle) and tied to firm performance (i.e. the pay-for-performance principle), although they also acknowledge that incentives do not necessarily motivate executives. This is illustrated by Consultant A, who opined:

"I think the basic principle that most people would acknowledge is that pay is a hygiene factor... people like to know if they are being fairly rewarded for their

¹⁶⁶ Normative pressure in the form of beliefs, norms and values that are shared among directors within their network may also influence the RemCo.

job... They don't want to be taken advantage of or... underpaid relative to the market... [Further,] people are driven differently by performance pay... Some people [are] highly motivated by that and some people are less so. And my experience is you can never predict who might be or who might not be."

Thus, recruitment consultants' discourse on executive remuneration is consistent with both Corporate Logic and Investor Logic.

7.5.4. Remuneration Consultants

Remuneration consultants influence how the RemCo makes decisions, particularly the level of executive remuneration. All Directors except one stated that they employed remuneration consultants to provide data and advice on executive remuneration. This occurs because, as Consultant B noted, *"...people require an external validation of remuneration."* Typically, boards will cite the opinion of remuneration consultants to justify their remuneration decisions to shareholders. This was observed by Executive B:

"[Y]ou go and ask the remuneration adviser, which is what Boards do. They always want the experts to tell them, so... when the shareholders have a moan, they can say, 'We have got the expert's advice.'"

Interestingly, many directors were critical of remuneration consultants. For instance, Director F said, *"I am personally not overwhelmed by [remuneration consultants], [but] they are useful as a point of reference."* Summarising the criticism of remuneration consultants, Director I argued:

"I say the biggest source of incremental creep over the last 20 years [has] been the role of remuneration consultants, because... [they promote] the idea[s] of median pay [and] reference... to the market... I think it probably encourages CEOs to seek large remuneration packages and [has] empowered board directors to approve it."

This criticism is reflected in Director A's reason for not using remuneration consultants:

"What I don't believe in, particularly, is getting a remuneration consultant and I don't particularly believe in benchmarking against so called comparable companies. Companies aren't comparable."

Further, Crystal (1991) argued that remuneration consultants face a potential conflict of interest because they often provide services to both the board and management of the same company. This is recognised by remuneration consultants. Consultant E affirmed:

“Independence is a very important issue... when it comes to the executives, we are engaged by the board. We prefer to be engaged by them and not by the HR [or CEO]...”

However, practice varied among the companies sampled: The remuneration consultants were hired by either senior management (e.g. CEO) or RemCo.

Remuneration consultants have similar beliefs to those of Executives and Directors. Also, the remuneration principles (particularly the market principle) are embedded in their recommendations to RemCos. Summarising, Consultant C stated that their recommendations include:

“[W]hat the typical market remuneration rate is for this role [including] the base salary... and then the performance related pay... And we also provide a recommendation as to where... remuneration should be positioned. Now a default recommendation... is the median... of the market... The exception to that is... some companies have a policy that, ‘we pay the executive the upper quartile...’”

Thus, remuneration consultants’ discourse on executive remuneration is consistent with both Corporate Logic and Investor Logic.

7.5.5. Investors and Analysts

Typically, Executives and Directors commented that investors and analysts are interested in how companies are governed and managed. This is consistent with Chiu and Monin’s (2003) findings that NZ institutional investors are actively engaged with boards of directors. However, Executives and Directors had varying experiences on whether or not investors and analysts are interested in how much and how executives are paid. Director J remarked, *“When I was on the board at [Company XYZ], it was a constant source of feedback and comment [from shareholders].”* In contrast, Director H believed institutional investors do not ask questions about specific aspects of executive remuneration such as performance measures used: *“I’ve never had anyone ask that question...”* Nevertheless, most Directors are concerned with how their remuneration decisions are perceived by shareholders. Director O explained, *“So you put it [i.e. details of the executive remuneration package] on the table with shareholders or with the analysts, and they look at that and say, ‘Oh, wow! This makes sense.’ So that’s a very big tick...”* However, a few Directors did believe that shareholders should not influence executive remuneration. Director I declared, *“If they [shareholders] don’t like the CEO, if they don’t like the CEO’s remuneration package, just sell your shares.”*

The interviewees discussed the role of analysts, institutional investors, retail investors (e.g. Mums and Dads) and investors' associations with respect to executive remuneration. Executives and Directors regularly communicate with analysts, as Director F noted, *"Yes... through the chief executive, rather than the board. They [the board] will get involved from time to time... at least quarterly briefings with analysts..."* Analysts are less concerned with executive remuneration than other parties. Similarly, Executives and Directors regularly communicate with institutional investors. However, institutional investors do raise questions about executive remuneration and may threaten to vote against directors or share-based incentive schemes at the annual general meeting (AGM) if their concerns are not addressed. Directors are keen to allay any concerns prior to the AGM. However, Directors characterised their relationships with institutional investors as friendly, rather than hostile. For example, Director J recalled:

"It is seldom the case that [institutional] shareholders will reject absolutely every part of the package. They would say, 'well, all the base remuneration is okay... We can't have too much focus on the short-run... For instance... you've misspecified the objective of xyz...' So, you go through this period of alterations..."

Executives and Directors may have some regular communication with investors' associations, but not retail investors. There were varying opinions among Directors on the extent to which boards should take notice of investors' associations. On the one hand, Director G believed:

"I think [an investors' association] is a good thing to have... we have never ever had anyone for small investors, so I think they have a role to play... If you look at their decisions, sometimes, they are actually really sound."

On the other hand, Director M argued:

"I've been a member of the Institute [of Directors in NZ] for many years... I take a lot of notice of their suggestions of what to do and not do. [However, a particular investors' association's] people turn up to shareholders' meetings and just advertise their own importance, rather than adding anything of any value. So I think most boards are quite cynical about [them]..."

Nonetheless, the AGM tends to be the forum at which Directors face scrutiny over their remuneration decisions. For example, Director F asserted:

"If I... paid [more than one million dollars] to the Chief Executive, I'd feel obliged to tell shareholders why I thought it's a good idea... At the end of the day, you

have to be able to stand up and say we've decided on this level of remuneration because we believe [xyz]..."

Similarly, Director L explained:

"When you get someone stirring away... before an AGM you say to yourself, 'Right, we'll give that special treatment in order to make sure shareholders really know the time of day.' You know, what's really happening here, [and] then they can vote in an informed way."

Generally, Executives and Directors have not experienced much backlash against remuneration decisions at AGMs. For instance, Director H testified, *"I've had no experience of shareholders' dissent, interrogation and dissatisfaction in an AGM around executive remuneration."* Similarly, Director E avowed, *"...we publish the remuneration report and I don't think anyone has asked a question in the AGM about that."* Thus, retail investors do not directly influence how the RemCo makes remuneration decisions.

Directors' perceptions of how retail investors may react to their remuneration decisions can constrain the RemCo's remuneration decisions (see Director L's remarks on the fairness principle in Section 7.6). However, Executives and Directors believe that shareholders ask few questions on executive remuneration because they do not read the companies' annual reports. Director D opined, *"...I would say ninety-nine percent of shareholders don't read the notes to the financial accounts."*

Further, Executives and Directors did not believe that NZ listed companies should not be required to produce a remuneration report, but, if it had to be produced, they also thought that shareholders should not have an advisory or binding vote on the remuneration report. Instead, Directors felt that if shareholders want the board to make different decisions, then they should vote for different directors at the AGM. This view was expressed by Director O:

"My view has always been that the company's board runs the business. They are accountable. So you should let them get on with the job, and if you don't like what they do then you sack them."

Overall, the interviewees felt that the current disclosure requirements on executive remuneration are sufficient so that shareholders can make informed decisions. Director A remarked, *"I don't think people would want more than the bare minimum... [but companies do] not [have] anything to hide... we had no questions in our last annual meeting with*

shareholders...” They also believed that RemCos act in the best interests of shareholders when making remuneration decisions (see Section 7.3).

7.5.6. Regulators and Code Issuers

Regulators and code issuers also influence how the RemCo makes and reports remuneration decisions. However, code issuers are far less influential than had been expected (see Chapter 4). The following remark by Director L is indicative of the general consensus among Directors:

“So wherever there’s a legal requirement, we’re [the board are] very familiar with that. In terms of the stuff produced by [Code Issuers] ...I would have to say I do not place great [weight] on that. They are sort of remote third parties...”

While most Directors were aware of the codes and official reports produced in NZ (see Appendix A), some Directors had little awareness. Director F commented, *“I’m unaware of [any Code Issuers] having done anything on remuneration.”* Similarly, when asked if the RemCo’s remuneration decisions are made with reference to NZ codes, Director I replied:

“I couldn’t cite you the document, neither of them, to be honest. I probably should be able to, but I am not the chairman of the remuneration committee anymore... the weight goes on the way I have seen it done... [and] the independent consultant, rather than the regulatory body providing tones of opinion.”

Code Issuers have mixed views on the extent to which their codes have influenced how the RemCo makes remuneration decisions. Most Codes Issuers thought that they have had a positive influence. Code Issuer B declared, *“I have every confidence that... they [codes] have a massive impact.”* Further, one Code Issuer argued that their organisation has been instrumental in curbing the incidence of executive share option plans among NZ listed companies. However, Code Issuer G acknowledged that, *“[I]t [the code] hasn’t had the impact that should have [had].”*

Some Directors and Consultants suggested that international codes have had a greater influence on how directors make remuneration decisions. This is partially because a number of the largest NZ listed companies are also listed on the ASX. Also, some Directors were exposed to international codes when they worked in AU, the UK or elsewhere. A common belief emerged that NZ regulators and code issuers tend to follow international trends. For instance, Director G stated:

“If you go back to the history of adopting codes, Cadbury and the Higgs Report, we do tend to adopt codes that [are] coming out from the UK. And there’s some sort of alignment. Australia is being a little bit stronger at the moment...”

Similarly, Consultant F affirmed:

“[T]here’s just a trend we are following, NZ is a bit of a follower. We tend to be more of a bit Anglo. What happens in UK flows to Australia and flows to New Zealand. So there’s been a lot of swing away from vanilla option schemes to things like performance right schemes.”

However, as noted in Section 7.2, NZ listed companies are not required to disclose as much on executive remuneration as their international counterparts. Therefore, coercive and normative pressures are weak. Instead, mimetic pressure is far stronger as non-executive directors are concerned with how their peers are remunerating executives (see Sections 7.5.2 and 7.6.2). Consultants reinforce this mimetic pressure by providing non-executive directors with intelligence on what their peers are doing (see Sections 7.5.3 and 7.5.4).

7.5.7. Media and the Public

Directors feel that their remuneration decisions are constrained by potential media and public outrage. For example, one Director recalled that an international candidate was not hired, despite being the board’s preferred choice, because his remuneration expectations were much higher than those of the NZ candidates. Executives and Directors believe that NZ’s egalitarian culture and the tall poppy syndrome results in an unjustified focus on how much executives are paid. Executive D argued:

“[The media is] ill-informed. The reality is people are paid what they paid in order to attract or retain them. So [comparing executive remuneration] to the average wage is irrelevant... They don’t make the same comment... about rugby players... for some reason, that’s actually admired... that they get paid millions.”

Similarly, Director M declared:

“...I would have to say the New Zealand media have the unhealthy tendency to focus on what people are getting paid, [as opposed] to what people are doing... I guess it goes back to [New Zealand’s] egalitarian roots, [where everyone]... wants to think that everyone is paid the same...”

As the Contact example illustrates (see Footnote 149), companies can be sanctioned or penalised if the public perceives their remuneration decisions to be illegitimate. Thus, Directors give much consideration to how their remuneration decisions may be perceived by the media and public. As a case in point, Director L elucidated:

“[In determining executive remunerating] you’d say, ‘Well, given our size, given our turnover and our earnings growth and stuff like that, are we reasonably, fairly positioned?’ And in most cases, we say, ‘Would the chairman feel comfortable justifying this to the media or to shareholders at an annual meeting or a special meeting or whatever?’ And that’s the test.”

Similarly, Director H remarked:

“I am very, very keen that there’s full disclosure by the CEO coz’ I think... a little bit of sunlight... is the best disinfectant and shareholders are deeply sceptical about CEO remuneration. In today’s world these people earn huge sums of money... [I am always] asking myself [if] a particular action would meet the Paul Holmes test. In another words, if I have to go on TV and explain to the Paul Holmes show, how would I feel. And it would be the same about disclosing CEO’s remuneration... in the public arena. Would I feel comfortable about it? Could I defend it? ...I think in the interest of ultimately a good relationship between the stakeholders and the management, that’s probably where you had to go.”

Therefore, the media’s and the public’s reaction or potential reaction to remuneration decisions can act as a constraint on how the RemCo makes and reports remuneration decisions.¹⁶⁷

7.5.8. Employees, Customers, Suppliers and Others

The interviewees rarely mentioned customers, employees, suppliers and others with respect to executive remuneration (see Section 7.3). This implies that customers’ perceptions are not relevant when making remuneration decisions. However, Director G referred to the example of the customer/shareholder revolt at Contact as a reason why customers should be considered when making remuneration decisions (see Footnote 149). Further, a few interviewees believed that the RemCo should consider employees, particularly the relativity between executives and employees, when making remuneration decisions. However, Executives and Directors appealed to the market principle to override concerns of relativity or vertical equity. Executive A declared:

“We live in a capitalist world and [it] is all market driven. The only things that distort that in the lower level is the unions... Withstanding all that, fundamentally my job... is to get the very best people we can in every single level and pay them according to market.”

¹⁶⁷ However, the RemCo may attempt to manage the media’s and the public’s potential reactions through symbolic disclosure (see Sections 7.6.8 and 7.8.3).

Additionally, suppliers and others (e.g. communities or the environment) were not mentioned at all with respect to executive remuneration. This reinforces that NZ listed companies are shareholder-, not stakeholder-oriented.

7.5.9. Summary and Implications

There are many parties that, to some extent, influence how the RemCo makes and reports remuneration decisions. Directors strongly emphasised that their current decisions are most heavily influenced by their past experiences. As a case in point, when asked how, if at all, had NZ codes influenced his opinion or decisions, Director J replied, *“They are all part of the information set, [but] as I said before, one rules on one’s experiences...”* Directors are also influenced by the opinions of other directors and their competitors’ decisions. This is illustrated by Director C, who commented, *“The trends... from the other companies are usually very influential.”* Recruitment and remuneration consultants are also influential because they provide Directors with information on their competitors. For example, Consultant B asserted, *“So consultants actually do not just do comparisons, they define norms within the remuneration market.”* Further, executives exert both indirect and direct pressure because the human resources department may provide the RemCo with advice and data, and executives negotiate their pay with the RemCo. Directors may also adopt an executive’s perspective because many Directors are former executives. In addition, investors, the media and the public act as a constraint on remuneration decisions. Directors are concerned that executive remuneration does not depart from NZ’s social norms. However, regulators and codes issuers (and their codes) are not very influential.

7.6. Remuneration Principles

The interviewees strongly agreed that the agency, fairness, human resources, market, motivation, pay-for-performance and responsibility principles should be and are the remuneration principles that frame remuneration decision-making.¹⁶⁸ Two lines of evidence were examined to reach this conclusion. First, without prompting, the interviewees made many references to these remuneration principles throughout the interviews. Second, at the end of the interviews, the interviewees were asked to comment on the remuneration principles, and they overwhelmingly spoke positively of the remuneration principles.

¹⁶⁸ The conformance principle was only identified as a possible remuneration principle after the interviews had been concluded. Thus, the interviewees were not directly asked to comment on the conformance principle. However, many of their comments do indicate that the conformance principle does also frame remuneration decision-making.

Notably, the Directors believed that the remuneration principles, as a set, represent best practice for remuneration policy. For example, Director N summarised:

“Remuneration has got to be fair at the start. It’s got to be fair to the company. It’s got to be market competitive. It’s got to attract and retain quality staff. They also have to be acceptable to the market, shareholders and analysts. So it’s quite a complex and volatile issue.”

Few conflicts between remuneration principles were mentioned, but there is a tension between the human resources/market principles and the agency/pay-for-performance principles. The above quote alludes to this conflict. To resolve the tension, the human resources/market principles are prioritised ahead of other remuneration principles. However, some interviewees were critical of the remuneration principles’ assumptions and implications, but not to the point where they rejected the remuneration principles. These issues along with the implications for Corporate Logic and Investor Logic are elucidated in the remainder of this section.

7.6.1. Human Resources Principle

The human resources principle is tightly coupled with the market principle. An example is given by Executive D: *“We... want to make sure we can attract and retain good talent... so we [pay] near medium to upper quartile [relative to our peers].”* Similarly, Director L said, *“...you have to attract and retain talented people in a competitive marketplace. [This] is just the job of the HR people. So where does it come from? It is just the way in which life is in the corporate world.”* This quote also illustrates that the human resources and market principles are taken-for-granted. Further, Directors argued that executives are trustworthy, knowledgeable professionals who will act in the best interests of shareholders without requiring coercion or inducements. This is reflected in the following anecdote that Director L told:

“[L]ast year we didn’t have a good year... the board had already talked about how... to address this because a lot of people are not going to get bonuses... [However, the] Chief Executive came to me... and said, ‘We’ve [the senior executives] all talked about it and we think we should forgo salary increases this year.’ I thought that was a fantastic attitude and I’d like to think it partly reflected the fact that we’d also looked after them really well in the years when things had gone well.”

Similarly, Executives portrayed themselves as stewards, who can be trusted to make decisions to maximise shareholder value (e.g. see Executive D’s comment in Section 7.4).

Essentially, Directors argued that while executives are not necessarily motivated by money, they are partially attracted to a job because of the money that they are likely to earn.¹⁶⁹ Directors believe that executives put forward their best effort irrespective of the incentive schemes, but they may leave a job if the remuneration is lower than comparable roles. This is illustrated in Director K's rationale for adopting an executive share option plan: *"We wanted to ensure we could attract and retain high quality executives."*

Directors also believed that executives' decisions affect firm performance. This was noted by Director K, who remarked, *"...the higher you get up... the tree, the more you have the ability to affect whole company performance."* Thus, Directors believed that if 'high quality' executives are hired, then debating remuneration is counter-productive. Director H explained:

"Good people are the ones you do not want to lose... [The difference between] what a good performer costs to retain and what can actually be delivered is just, it's not even worth spending any time talking about it."

7.6.2. Market Principle

Directors believe that the market principle is paramount. This is illustrated by Director E, *"[The remuneration has] got to be competitive... if you... deliberately [pay] eighty percent of what you should, then that isn't fair and you will lose your staff."* The market principle acts as a constraint on the minimum level of remuneration. Directors believe the level of remuneration cannot be below the median without risking losing their executives. For instance, Director N maintained:

"[I]f you go for medium, then you will get average type of people. I think a good successful company, will value its executives and its staff, and [therefore] it's got to be prepared to pay well to keep quality people... I would be very wary of a company who pay average of medium. It says something about the company's attitude."

While nearly all Directors advocated remunerating at the median level or higher, some Directors expressed concern about remunerating at the upper-quartile or higher.¹⁷⁰ How the market principle constrains remuneration decisions is discussed by Director H:

"In the end, it is always a trade-off between ensuring you retain talent or good talent, and not over paying. So there is a temptation if you got a very, very strong

¹⁶⁹ However, the interviewees also acknowledged that, occasionally, some executives are opportunistic and do not act in the best interests of the company (see Section 7.4).

¹⁷⁰ The level of executive remuneration is discussed further in Sections 7.7 and 7.8.

performer or performers, maybe you start pushing boundaries... But I am nervous about really pushing the boundary and paying people well beyond the market..."

7.6.3. Fairness Principle

The fairness principle implies executive remuneration should be fair, reasonable and equitable, but the conditions upon which fairness should be judged are not defined. The interviewees were asked to define fairness. A layperson may define fairness as vertical equality between executives and employees or a sense of equality between executives and the average person. However, the interviewees defined fairness in terms of horizontal equity (or the market principle). For example, Executive A commented, *"fair and reasonable in my mind would be when there're no serious anomalies in what we... and someone else might be paying for the equivalent similar job."* It can also be defined in terms of the executive's contribution to firm performance (or the pay-for-performance principle). As Consultant C pointed out, *"There are some people saying fair is equal... and others say equitable in terms [of the executives'] contribution to the business."* Further, fairness may not be able to be precisely defined. It may be that fairness is a perception that executive remuneration is seen to be legitimate or conform to societal expectations (e.g. see Director L's comment in Section 7.5.7). Only Director I disagreed with the fairness principle: *"I am less excited about fairness. I want one [remuneration scheme] that is effective. What's the point of being fair and broke?"* Overall, the fairness principle offers directors flexibility in setting executive remuneration because fairness can be defined in multiple ways. In this sense, the fairness principle blurs the distinction between Corporate Logic and Investor Logic.

7.6.4. Pay-for-Performance Principle

Similarly to the fairness principle, the pay-for-performance principle does not define performance. As discussed in Section 7.3, performance is generally defined in financial terms such as revenue, profit and share price. Most interviewees argued that the pay-for-performance principle is justified because (they believe) executives, particularly CEOs, can influence firm performance. As Director E remarked, *"...we are not playing here. We are trying to reward good performance."* Some interviewees disagreed. They argued that many factors have more influence on firm performance, particularly if measured by the share price. For instance, Director M contended, *"...the share price has nothing to do with the chief executive's performance."* These interviewees argued that executives have to work harder

when firm performance is poor, and concluded that incentive schemes are profit sharing schemes in disguise.¹⁷¹ This reasoning is explained by Director G:

“[W]e’ve already seen in the paper recently about... companies [being] less profitable and CEOs’ salaries going up again. But... [it] is actually harder to run a company when things are bad than when things are good. So in fact, one should be actually thinking about... a reverse scheme.”

However, the main problem is that incentives can work too well, as Director I remarked, *“People are rational. If you set up performance pay that focuses on a narrow definition of success, you will get the behaviour that leads to that outcome”*. A few Directors recalled examples of executives focusing on the short-term results at the expense of the long-term performance (see Sections 7.3 and 7.4).

To challenge the pay-for-performance principle, some interviewees were told that researchers have not found a strong relationship between CEO pay and firm performance. Director L replied, *“[I]t is a worry... it should be much more strongly correlated with performance than with size.”* Further, Director O’s response highlighted why the pay-for-performance principle is taken-for-granted: *“[M]ost [researchers]... are pretty agnostic about the benefit of remuneration at-risk. In spite of that, most companies do it. In spite of that, I’m keen on it. And the reason is: it is very plausible.”* Generally, the interviewees shared this view. Finally, Code Issuer A defended the pay-for-performance principle by criticising companies: *“But mostly, research indicates performance-based pay failed. My answer to that is: [it] failed because of poor design.”* Thus, the pay-for-performance principle is taken-for-granted.

7.6.5. Motivation Principle

The motivation principle is the most controversial of the remuneration principles because the interviewees had varying opinions on how executives are motivated (see Section 7.4). The general consensus was that financial incentives are necessary to motivate executives, but executives must also find their role challenging and enjoyable. Some Executives and Directors portrayed financial incentives as a potential de-motivator. For instance, Director K noted: *“[I]f you’ve got... most of your options underwater... Hello! It’s a disincentive, not an incentive.”* However, Executive B disagreed:

“If they [share options] are out of the money... that doesn’t leave me de-motivated, coz’ I am still driven hugely by the need... [to] maintain my reputation as a

¹⁷¹ The interviewees conceptualised performance-based remuneration (or incentive schemes) as either a control or a profit-sharing mechanism. This point is discussed further in Section 7.7.

successful person. I've still got to sell myself beyond here [i.e. my current position]."

Despite these criticisms, the interviewees still believed that the motivation principle is an important remuneration principle. Director K, who is a strong advocate of financial incentives, commented, *"I've never found, with one or two exceptions, chief executives to be.... working every day motivated by money."* While Directors realise that executives are motivated by a range of factors, they cannot know with certainty how any particular executive is motivated. In this sense, financial incentives are part of a range of measures that boards use to ensure that all types of executives are motivated.

7.6.6. Agency Principle

There was strong agreement with the agency principle among the interviewees. Executive A stated that share-based incentives do align his interests with those of shareholders: *"I think it does. You think like a shareholder, so you care about the share price. It also aligns your interest in the best terms and the long-term with the shareholders."* Directors often invoked the agency principle when explaining how executive remuneration packages are designed. As illustrated by Director A, who declared, *"We really try to align to their [executives] motives, their incentives with the shareholders, and those are for long term steady growth and returns..."* Further, Directors tended to associate the agency principle with only long-term incentives (or share-based incentives). For example, Director K described a debate in the boardroom that occurred when a particular company decided to adopt an executive share option plan:

"[T]here was quite a long and theoretical discussion about how they [share options] should be structured, and all the time, you know, the biggest driver was alignment to shareholder value and how we could do that over time."

Directors' thinking was compartmentalised because they did not consider if other remuneration practices might undermine an alignment of interests. Salary, benefits, other fixed pay (e.g. severance pay) and short-term incentives were not seen as adding to or subtracting from an alignment of interests. Thus, the agency principle is taken for granted, but only in the context of long-term incentives.

However, some Directors criticised how RemCos have implemented or applied the agency principle. The problem is long-term incentives may not align interests because executives and shareholders face different risks. This problem is discussed by Director H:

“There’s always this desire... trying to align management remuneration with shareholders. [It] is a great goal... But it’s very difficult to achieve it. Because unless they [executives] are actually a shareholder in every sense of the word, they can’t have such alignment... Options [cannot create] alignment to shareholders because shareholders don’t have an option. What shareholders have is capital on the line.”

Similarly, Director D also argued that long-term incentives do not necessarily result in an alignment of interest:

“So... if the shareholders are doing well, then... we’ll [executives] do well too... And that’s cloaked up in... ‘We want commonality of purpose between the shareholder and executive.’ Then, of course, they [executives] sort of say, ‘But of course we can’t have risk on the downside, so this should all just be upside... And... [give us] money to buy shares... [and] don’t charge us an interest rate.’ ...So actually, it’s rubbish about commonality with shareholders because it’s an asymmetric one. They [executives] can benefit on the upside, but not on the downside.”

Despite this criticism, Director D supported the agency principle. He suggested that executives should be subject to a minimum shareholding requirement (e.g. executives’ shareholding must have a market value equal to a fixed multiple of their base salary). Director D explained how a minimum shareholding requirement results in an alignment of interests:

“[I]f the proposition is we’re trying to achieve commonality between the shareholder and the executives, well, at the end of the day, they’ve got to own shares with full downside as well as upside.”

However, whether or not shareholders have common interests was not mentioned by Directors. Shareholders’ interests can vary in terms of their investment time horizon (e.g. some are active traders), risk profile and size of their shareholding (Hendry et al., 2006; Lok, 2010). Instead, Directors have a fictitious conceptualisation of shareholders: the stereotype entails long-term (possibly, indefinite) investment time horizons and diversified investment portfolios. Director N maintains:

“[S]ophisticated investors, they will understand the need to pay competitive salaries to get the right people. And you wouldn’t expect an institutional shareholder or analyst to get too bent [out of shape], to shout about that... The problem comes [from]... the Mums and Dads in the annual meeting or... [a particular investors’] association...”

In this sense, some Directors are not worried if real shareholders are concerned about their remuneration decisions as long as executives' interests are aligned with those of the fictitious shareholders. This underscores that the agency principle is taken-for-granted.

7.6.7. Responsibility Principle

The responsibility principle implies the level of remuneration is dependent on the executive's level of responsibility. The interviewees generally agreed with this principle. First, they believed that senior executives should be paid more than junior executives. Director N declared, *"Generally you've got to recognise the different responsibility of the CEO and pay them more than their deputy. A percentage? I would argue that maybe a third."* Second, they felt that there should be a relationship between level of executive remuneration and the scope of the executive's role. For example, the interviewees suggested executives' base salaries are related to firm size in terms of revenue, assets and number of employees. However, some interviewees were concerned that responsibility cannot be easily measured. Others cited job evaluation systems as being able to measure responsibility.¹⁷² Further, some interviewees were concerned that the relationship between executive remuneration and firm size was not at the expense of firm performance. Director M argued, *"As long as it [remuneration for the level of responsibility] doesn't conflict with their performance. It is important that it is both of those things, not just responsibility..."* Thus, the responsibility principle is important, but not as important as the pay-for-performance principle.

7.6.8. Conformance Principle

The conformance principle implies that the RemCo should make remuneration decisions that conform to societal expectations. While the term 'societal expectations' does not have a precise definition, the interviewees affirmed that RemCos seek to conform and some parties (e.g. investors) have more influence than others (see Section 7.5.). Summarising, Consultant C stated:

"In my experience in discussion with executives and directors, the majority of their attention is around... 'What will shareholders think? What will the media

¹⁷² Consultant B explained, *"[A] job evaluation [system]... ranks the company and the jobs in it... It says if a company's bigger, you pay more, it says if you're got more staff you get paid more, it says if the strategy is more complex you get paid more – you accumulate points."* Further, Consultant C remarked, *"...job evaluation is useful to get a ranking and structure, internally, for an organisation."* Thus, job evaluation systems establish the social norm (or pay ratio of superior to subordinate) that Simon (1957) postulated existed in companies. For a review of job evaluation systems, see Van Sliedregt et al. (2001).

think? What will [other] Chief Executives think? What will the employees think?’
...[T]here’s a lot of anxiety to getting it right.”

Instead of substantive conformance (as described above), there may be symbolic conformance, where the RemCo only reports that its remuneration decisions conform to societal expectations. For instance, one anonymous Executive confessed:

“We get forced to do it [i.e. make remuneration disclosure]... It is really up to us to disclose enough to be able to sit back and say, ‘that’s kind of fair enough’... And we’d find ways of making disclosures to, maybe, confuse. Not confuse it, but to hide the true picture... I’d say we’d be at the lower end [in terms of remuneration disclosure relative to other companies]. We don’t have a lot of desire to lead the pack.”

However, this Executive argued that symbolic disclosure of remuneration does not result in executives at his company being paid at a higher rate than other executives in comparable roles, but he does imply that it results in less shareholder scrutiny of executive remuneration.

7.6.9. Remuneration Principles as a Set

Undoubtedly, the remuneration principles frame debate in the boardroom on executive remuneration, executive remuneration practices and remuneration disclosure. The remuneration principles also frame how consultants make recommendations to RemCos and how code issuers interpret companies’ remuneration disclosure and make recommendations in codes. Essentially, the interviewees believe that executives should be remunerated fairly (vertical equity), competitively (horizontal equity), for their contribution to firm performance and in line with shareholder returns. However, the market principle is prioritised ahead of other principles. Executives must be remunerated at the median or higher relative to other executives in comparable roles.

The market principle and associated remuneration practices such as job evaluation are taken for granted as one anonymous Director explained:

“Well, you ask yourself what’s the other alternative... to a system whereby you say we want to pay ourselves comparably to the market... I think you could ignore [a particular job evaluation] system. Coz, as I say, I’ve never known a person turn down an appointment on the basis that the remuneration package... wasn’t good enough [pause], which tells me there’re obviously too high. I think if an organisation really had the courage, if [Company EFG] really had the courage, and it was prepared to lose a person or two, which it undoubtedly [does] lower down in the organisation, [pause] you could break away from [a particular job

evaluation] system... And what has also been built around that is the viewpoint that you shouldn't set yourself at the bottom quartile. I mean, I've never ever heard anyone say they should be at the bottom quartile, but someone has to be at the bottom quartile... Only now do I hear the odd organisation say, 'we should be set at the median'. And most of the discussion is, 'well, of course, I'm not talking about myself'... [However,] I'm not on the remuneration committee... I think that's coz most people know I'm pretty hostile on the matter."

This example illustrates that the remuneration principles, particularly the market principle, are deeply embedded in how directors interpret and justify remuneration decisions, and RemCos may only be comprised of like-minded directors, who believe in the remuneration principles.

There are, at least, four ways in which tensions between the remuneration principles are managed. First, the remuneration principles are prioritised (or ranked). A likely rank order for the principles is: Market, human resources, pay-for-performance, agency, conformance, responsibility, motivation and fairness. Second, the remuneration principles are redefined or ambiguously defined to resolve tensions. For example, the conformance and fairness principles have many definitions (see Sections 7.6.3 and 7.6.8). Third, theoretical tensions can be resolved in practice because directors see executive remuneration as only one part of the employment relationship with executives. For example, the tension between the human resources/market principles and agency/pay-for-performance principles can be resolved if executives are dismissed following firm performance that is below expectations (see Section 7.8.1). Fourth, remuneration decisions are cognitively compartmentalised. For example, implementing the agency principle only concerns long-term incentives, not fixed remuneration and short-term incentives (see Section 7.6.4). Thus, the interviewees consider the remuneration principles as complementary, not contradictory.

7.6.10. Summary and Implications

The remuneration principles are deeply embedded in the thinking and decision-making of Executives, Directors and others. This implies that both Corporate Logic and Investor Logic are also taken-for-granted or institutionalised. The interviewees indicated that Corporate Logic was the historical position (pre-1990s) and Investor Logic has only become institutionalised in recent times (post-1990s). During the 1990s, Director B recalled that share option schemes and the mantra of aligning interests (or the agency principle) became increasingly popular among NZ listed companies. Illustrating that the agency principle is taken-for-granted, Director B commented:

“[The] CEO at the moment doesn’t own any shares in the company. [This] is quite a worry to a number of [directors on] the board. [They believe] he should... be evidencing faith in the company, he should own shares. I don’t happen to agree with that but I’m probably pretty much a lone voice.”

Investor Logic has not replaced Corporate Logic. Instead, both Logics are able to co-exist in the discourse because Directors are able to manage the tensions between the remuneration principles. This is made possible as the remuneration principles are loosely, not rigidly defined. Further, Directors have a pragmatic, not theoretical approach: They have a high tolerance for ambiguity. While Directors portray executives as trustworthy professionals, they also believe that financial incentives are required to control (or motivate) executives (e.g. see Director L’s comments in Section 7.4).

7.7. Remuneration Practices

The interviewees described a standard remuneration package that consists of base salary, benefits, superannuation, annual bonuses (or short-term incentives) and equity-based bonuses (or long-term incentives). Restricted share plans are favoured over share option plans. Bonuses are dependent on a range of financial and non-financial performance measures. Some believed that executives should be subject to minimum shareholding requirements. Others also noted that executives may receive other remuneration such as recruitment, retention and severance payments. Director L explained why the standard remuneration package is a mix of fixed and variable remuneration:

“I think the two extremes just don’t make sense. If you don’t have any salary people don’t have anything to live on and most people don’t have enough capital to live off. At the other end of the spectrum, if you have it all on fixed pay you just can’t get a close enough relationship to performance. So that’s why people have ended up in the middle ground.”

Directors use the remuneration principles to justify these remuneration practices (see Section 7.6). On the whole, the standard remuneration package is consistent with both Corporate Logic and Investor Logic. This is reinforced by institutional pressures (or societal expectations) as Director C affirmed, “[When] remuneration packages [are] completely outside the norm and [do not] necessarily have the performance to back it up... [then] that’s fair game both for the media and the public.”

Further, the interviewees described how the standard remuneration package has changed over time. Historically, CEOs received mainly fixed remuneration. There has been, at least a

perceived, trend towards a higher proportion of variable remuneration, particularly among the largest NZ listed companies (see Section 7.2). Specifically, share option plans became popular in the 1990s and then restricted share plans became popular in the 2000s. Director L explained why this trend occurred:

“[T]he change in remuneration structure towards more performance-based has reflected the [share] market pressures to get the remuneration aligned with the company performance...”

Director L also discussed why these trends are not necessarily rational:

“[There] has been much more active use of options and restricted shares... However, there’s been a fashion change because people go nuts... there’s been this criticism of options. People have been backing off options and then using restricted shares. The irony is if you understand it and do the proper valuations, there’s no difference between them. And I think people... don’t know what they’re talking about. They create so much fuss in the media and at [the] annual meeting... everyone [i.e. directors] says, ‘To hell with it. We’ll go for a different... alternative.’ So now there is more emphasis on restricted shares.”

However, executives, directors, investors and others may have different perceptions of what is rational and legitimate. For example, the RemCo may want to award a bonus to an executive for their contribution to firm performance, but may perceive such an award as illegitimate if shareholder returns have declined (e.g. see Director G’s comments in Section 7.6.4).

Directors had a range of beliefs on how executive remuneration should be structured, but they acknowledged that there is no one best way. This is highlighted by Director J:

“The issues are really around, how do you structure a package? You’re capturing the complexities and the dynamic of an uncertain world... and there’s huge judgement involved in these things. There’s no formula... There’s a set of principles... You want superior performance to be rewarded.”

There are three executive remuneration practices where Executives and Directors had contrasting views. First, some believed that financial incentives do influence how executives behave, while others held the opposite belief (see Section 7.4). A few Executives and Directors argued that financial incentives are a profit sharing mechanism. For instance, Executive D explained:

“[A] remuneration committee and particularly a board would find it hard to pay market remuneration if it was fixed... So to get you to the total you need to be competitive, senior executives... have an at risk portion.”

Similarly, Director D argued:

“[The subtext] was, ‘actually, in all of these incentives, we’re actually just rewarding you if the organisation has good results’. So let’s be generous, and let’s say what we’re saying is, ‘you should share along with the shareholders in good results’. So it’s a sharing scheme... And most of the high pay-outs are just the benefits of being the lucky person to be there at the right time.”

Additionally, Director F maintained:

“All incentive schemes are implicitly or explicitly profit sharing schemes. [If] you do them properly, what you are saying [is]: ‘If the company is performing well, then I’ll give you a share of that improved performance.’ It is the question of allocation of the benefits... between capital and labour. And then you can have different levels for different levels of contribution. But in the end, what you’re talking about is allocating profits. Every dollar of remuneration... [is at] the expense of profit.”

This argument is consistent with Corporate Logic, not Investor Logic. It also highlights that some Executives’ and Directors’ arguments are consistent with Corporate Logic, while others are consistent with Investor Logic. Further, the standard remuneration package can be justified using Corporate Logic and/or Investor Logic.

Second, the interviewees had different views on how many and what performance measures should be used to determine executives’ contribution to firm performance (see Sections 7.7.2 and 7.7.3). Third, there were contrasting views among interviewees on what mix of fixed and variable remuneration is appropriate. Consistent with Corporate Logic, some advocate for mainly fixed remuneration; whereas, consistent with Investor Logic, others advocate for mainly variable remuneration (see Section 7.7.4). Fourth, setting the level of remuneration also proved to be a point of contention (see Section 7.7.5). Some believe median pay relative to peers will result in average performance (e.g. see Director N’s comment in Section 7.6.2), while one director has argued firm performance will not be harmed if executives are paid at the median or lower (see the anonymous Director’s comment in Section 7.6.9). These and other aspects of executive remuneration practices are discussed in the remainder of this section.

7.7.1. Fixed Remuneration

Most Directors have the view that fixed remuneration alone is not sufficient to motivate all executives. For instance, Director K called fixed remuneration, “*coming to work money*”. Benchmarking is used to determine how much fixed remuneration executives are paid. Some

boards hired remuneration consultants to implement job evaluation systems, so that executive roles within and between companies could be benchmarked (see Sections 7.5.4 and 7.6.7). Others used survey or annual report data to benchmark executive roles. Typically, fixed remuneration is paid at the median relative to peers (see Section 7.7.4), although fixed remuneration may be adjusted for an executive's experience and performance. However, some Directors were critical of benchmarking. They believed that executive roles, particularly in large companies, cannot be compared because there are no or few companies in the same industry in NZ. Executive C described the problem facing NZ companies:

"I think New Zealand is going to struggle... because there is only one telecommunication company... one casino company, a few banks... Overseas you have 10 telecommunication companies, a hundred listed transportation companies. So... within an industry, you can use some sort of benchmarking... [but] we are such a small market. It is exceptionally hard to give you a reason behind the salary."

Further, Directors justified recruitment and retention payments by invoking the human resources principle. However, some Directors were defensive about severance payments. With respect to one particular incidence that was well publicised, one anonymous Director said, "[it was] *an exceptional case, for exceptional circumstances.*"¹⁷³ Other Directors were critical of severance payments. For example, Executive B lamented:

"Exit packages perplex me. I worry about how hopeless some boards are [to allow this] sort of arrangement... how can people get such enormous amounts of money when they're underperforming? If there's one thing that really embarrasses me as a CEO, [it is] when you see clearly a CEO who has not delivered wealth creation moved on... with multi-million dollar departure packages. That's really dumb."

What emerges is that there are two reasons for severance payments: First, the board wants to recognise an executive's outstanding performance; and second, in the case of poor performance, the board uses a severance payment to encourage an executive to leave and thereby avoids a costly legal battle. However, among the interviewees, fixed remuneration is less contentious than variable remuneration.

¹⁷³ Further elaboration is not possible as the name of the company and the CEO involved cannot be disclosed.

7.7.2. Short-term Incentives

Directors remarked on two significant trends with respect to short-term incentives: First, formality has increased as short-term incentives are included in the employment contracts. Second, the maximum annual bonus as a percentage of base salary has increased. Director F describes these trends:

“[In the past,] the short-term incentives... would possibly be no more than 20% of base, sometimes even less than that. With no particular rules [other] than they were entirely at the discretion of board... there was no sense of negotiated entitlement to a short-term performance incentive in those days...”

Most Directors felt that short-term incentives should be dependent on no more than six performance measures. For instance, Director G commented, *“Normally, I would imagine, no more than 5 or 6.”* Similarly, Director N argued, *“Not too many. Maybe maximum half a dozen. The more you have, the more complicated... the scheme is... The best schemes are the simple ones.”* However, some Executives have been subject to short-term incentives with many performance measures. Executive B offers a case in point:

“[W]hy do you want to give me 15 objectives for a short term incentive and have profit or long term value creation... [equal to] 10% of a STI? [This] just ends up [being] a meaningless number. That is sort of how the standard process works. I am a huge critic of it... but it’s actually... driven... by... shareholder activism, almost do-gooder thinking around how [the] public company should behave...”

Executives and Directors mentioned a range of financial and non-financial performance measures, although financial (accounting) performance measures were dominant (see Section 7.3). For example, Director N remarked, *“Typically you would be looking at things like profit... market share... cash flow, product development...”* Similarly, Executive D mentioned that his key performance indicators included, *“profitability, revenue, [and] a few other measures...”*

Targets have to be set for the performance measures. Directors argued that the targets have to be challenging, but not impossible to achieve within a year. They recognised that target setting is an art, not a science. Some targets may be easily met, while others may not be met due to extraordinary or uncontrollable factors. Director H describing how directors and executives should handle this problem:

“Everyone grows up and becomes adult, and realises it won’t work until you have some honesty and integrity about it. There will be a bit of rough justice, but... it will even out. Sometimes you’ll get a lucky break, and sometimes you’ll get a kick in the teeth.”

However, some Executives and Directors were critical of target setting processes. They believe that short-term incentives have become, at least partially, guaranteed bonuses. This problem is illustrated by Executive B:

“[On] the law of averages, it means out of that ten, you will miss a couple, you will massively outperform a couple, and you will get the others about right. When you add it up, it will come out as about one hundred percent.”

Director D also highlights this problem, but attributes it to short-term incentives becoming standardised and taken for granted:

“The mindset has been successfully sold that... to be fairly remunerated, people have got to have another component [i.e. short-term incentives] and that the rules for that component should be sufficiently loose that you always get at least half of it, and, if not, all of it.”

Further, the interviewees felt that short-term incentives should be paid in cash and payment should be immediate, not deferred. They argued that deferral is not necessary because of long-term incentives. For instance, when asked about deferral of short-term incentives, Director G replied, *“No, I don’t agree with that. You’ve got long-term incentives and you’ve got short-term incentives.”*

7.7.3. Long-term Incentives

As aforementioned, share option plans become popular in the 1990s, but following much criticism were replaced with restricted share plans in the 2000s. Directors provided three rationales for adopting long-term incentives: First, to ensure that executives focus on both short- and long-term performance (see Section 7.3); second, to align executives interests with those of shareholders (see Section 7.6.6); and third, to attract and retain executives (see Section 7.6.1). As a case in point, Director K affirmed, *“[For]...restricted share units or share options, it is always about... there is a rewarding element and there is a retention element.”* Further, long-term incentives are dependent on financial and market-based performance measures. As noted by Director L, *“They are typically either related to the share price or to the earnings of the company.”* However, some Executives and Directors were critical of the use of market-based performance measures such as total shareholder return. For example, Director M argued:

“[S]hare prices are a very poor proxy for performance. That’s one of the real worries I have for share price-based schemes. Coz’ all sorts of things can influence share price and the share price has nothing to do with the chief executive’s performance.”

On the other hand, the legitimacy of a company may be threatened if market-based performance measures are not used because investors and the media are critical of executives being rewarded when the share price declines (see Sections 7.2, 7.5.5 and 7.5.7). This is described by Director K:

“[W]hat’s happened often is that boards have surrendered their decision-making effectively to management, and management’s got the lion’s share... so you get [a] huge misalignment where the share price goes down and management comp [compensation] goes up. That just destroys the reputation of... capitalism...”

Further, the board may react to (potential) legitimacy threats by constraining executives’ decisions to exercise share options. Executive B explained that share option plans have not motivated him because first, the board discouraged him from exercising his share options prior to the end of the vesting period and second, the Global Financial Crisis suppressed share prices:

“I have never exercised a single option because on the times that they have been in the money I haven’t been allowed to. Insider trading and it’s a bad look. You get told off by your board. If it’s the senior people that exercise options before their last stage, you get the lectures about bad look. But if you get caught in a declining industry... and I have been caught in the first two years here by the Global Financial Crisis, the net result is ten or eleven years of running a company and [I have] never exercised a single one.”

Moreover, Executive B argued that short- and long-term incentives that are periodically evaluated motivate business as usual, rather than business transformation. He preferred a radical solution, where the financial incentive is tied to one objective that if achieved would add shareholder value, but there is no time limit on achieving the objective. Such an incentive scheme was not endorsed for listed companies by any other interviewees. As Executive B had raised concerns over the standard remuneration package, he was asked if he had ever attempted to negotiate with the RemCo in order to simplify his remuneration package. Executive B replied:

“Not really because in a listed company, that’s just so engrained. I have no question whatsoever [that]... if the company is privatised, I would say to the owners just give me a much bigger incentive on creating long term value and lifting earnings... [What] I do... for my base salary [is]... running a good ship and satisfying customers, running the staff – that’s my job and if I don’t do that

properly... get someone else... [P]rivate businesses do much more coz'... they haven't got that nonsense disclosure and having to justify to people who don't really understand it... People with serious money know how to incentivise people... [They say,] 'I will give you this large amount of cash if you deliver me these results.' They don't really work in yearly cycles. They just say, 'There's the [desired] result [and] when you've got it, we will give you this. And if it takes three years, that's fine. If you get it in three months, coz' you are a miracle worker, then that's fine too.'"

In addition, Executive B argued that long-term incentives cannot align executives' interests with those of shareholders because economic trends have a significant impact on companies' share prices:

"[With listed companies,] long term incentives are the weakest part of the modern remuneration structure and they should be the strongest part. But they ended up [being] the weakest part of all because... so much of it being luck and timing. And anyone who does the numbers... can see people getting massive rewards for underwhelming outcomes just because they happened to be there at the right times. Everyone in the resources and mining business in the last five years has become... mega millionaires. [It] doesn't have anything to do with them, to be frank... [T]he global growth of China and massive demand for resources have driven prices through the roof... [B]ad management could have [reduced]... some of that opportunity but... they [still] would have got 90% of [their long-term incentives]..."

A few Directors have also been critical of long-term incentives. They argue that executives' interests cannot be easily aligned with shareholders' interests using long-term incentives (see Section 7.6.6). These Directors also believe that most executives will act in the best interests of shareholders, whether or not long-term incentives are adopted. Nevertheless, most Executives and Directors favour using long-term incentives. A few Executives and Directors also noted that having a minimum shareholding requirement improves the alignment of interests. This debate illustrates that there is some tension between Corporate Logic and Investor Logic.

7.7.4. Mix of Fixed and Variable Remuneration

While the mix of fixed and variable remuneration has changed, there has not been a dramatic shift towards a high proportion of variable remuneration in NZ as has occurred in some countries (see Section 7.2). Director L commented on the current mix, *"Typically, it would be... in New Zealand today... seventy percent fixed and thirty percent flexible..."* This trend may be explained by the range of views that interviewees expressed on what is the ideal mix. Some Directors supported a high proportion of variable remuneration. For instance, Director

A affirmed, “[W]e broadly accept something like a third fixed, a third short-term, [and] a third long-term.” Other Directors wanted a balance between fixed and variable. Director O remarked: “[T]he Chief Executive in my view shouldn’t be getting more than sixty percent fixed... probably better if its nearer fifty or forty-five percent fixed, and all the balance at-risk.” Similarly, Director C declared, “My rule of thumb... [is that] the LTIs probably be 25-35% of remuneration, STIs will typically be 25% as well, and the base is the balance.”

A few Directors had a conservative mix. As a case in point, Director N opined:

“I would say there should be 20-25% at risk, no more than that. And that the at-risk portion around 50/50 long-term and short-term... [But] if you get say 50% of the package at-risk... that forces the behaviour... and may not be taking [into account] long-term implications of the strategy...”

One anonymous Director believed that incentives should not be required at all:

“So then you [start] getting into the incentives game, which is a complete nonsense. Why anyone getting paid a quarter of a million dollars, let alone a million dollars, feels they need to be incentivised to do their job – I mean, it just defeats me! For God’s sake, you’ve probably got a very exciting job for a start, and you’re getting paid a very large amount of money. Why you have to be incentivised to do your job is – I don’t know.”

This debate is suggestive of a tension between Corporate Logic and Investor Logic. However, only one Director (see above) rejected performance-based remuneration. While some Directors advocated a conservative approach to executive remuneration, they still advocated the use of short- and long-term incentives. Thus, both Logics co-exist as opposed to compete in the discourse.

7.7.5. Level of Remuneration

Generally, the level of remuneration is determined by benchmarking executives’ roles (which entails using a job evaluation system). This may occur for base salary and total remuneration. In any case, base salary is linked to variable remuneration because the maximum award for short- and long-term incentives is normally expressed as a multiple of base salary. Further, most Executives and Directors have said that executive remuneration is set at the median to upper-quartile relative to the comparator group. For instance, Executive D commented, “[W]e basically have a philosophy of setting ourselves somewhere between medium and upper quartile.” Similarly, Director K recalled, “[We] were willing to have for the rest of the executives [at] upper quartile.” Executives and Directors believe that this position is

justifiable because executives with above-average talent expect to be paid at an above-average rate (e.g. see Director N's comment in Section 7.6.2).

However, this reasoning is questionable given that executives are motivated by both extrinsic and intrinsic rewards (see Section 7.4). Some questioned the ability of remuneration set in the upper quartile to attract and retain executives. For example, Executive E argued:

“[T]hose good organisations want to pay that top quartile, but they are also competing for the same people... [A] long-term incentive plan... might be enough to stop people from going. [But] in my experience, that's never significant enough to stop people from going. So they say [it is] a retention tool but it is not.”

Further, incremental creep or the Lake Wobegon Effect (Hayes and Schaefer, 2009) may occur if many companies set executive remuneration above the median level. Several Directors believed that this has occurred, particularly as executive remuneration has to be disclosed. However, Executives and Directors did not believe that they had to curb the level of remuneration. Executive C commented on this problem:

“I guess I've never thought of it in that way, but certainly... if everyone is paying the upper quartile... [then] upper quartile will keep on creeping... We aimed at paying upper quartile, [but] whether we do or not is a different story. Individuals' performance comes into... the conversation... but your logic is right... If you start to pay the upper quartile... the average [will] keep coming up.”

There are a range of views on the level of remuneration (also see Sections 7.6.9 and 7.7.4). Some Executives' and Directors' views are consistent with Corporate Logic's conservatism and with the belief that executives are, at least partially, intrinsically motivated; whereas other Executives' and Directors' views are consistent with the belief embedded in Investor Logic that executives should be rewarded for their contribution to firm performance.

7.7.6. Summary and Implications

There is a standard remuneration package for executives. This is illustrated by Executive B:

“If you ask about any CEO package, or even senior executive [package], the expert adviser will say, ‘Look, what you have to do is to pay a base of x and you have to have for a CEO: up to 100% of x as an STI and 50% of x as an LTI, and for... senior executives: 30% of x STI and 15% of x LTI... They have all these percentages.”

There is flexibility within this package. RemCos will choose different comparator groups, performance measures, types of schemes (e.g. share options or restricted shares), mixes of

fixed and variable remuneration and levels of remuneration (e.g. median or upper quartile). The remuneration principles are used to justify these choices. Further, some choices are consistent with Corporate Logic, while other choices are consistent with Investor Logic. Executive remuneration practices in most companies are comparable. However, there are some differences. This is suggestive of a tension between Corporate Logic and Investor Logic. However, Corporate Logic and Investor Logic can co-exist because almost any remuneration principle can be used to justify the same remuneration practice.

7.8. Remuneration Processes

This section considers the process of decision-making in order to understand how both Logics influence how remuneration decisions are made and reported. Three decisions are studied: How the board hires and replaces executives, how the RemCo makes remuneration decisions and how the company reports remuneration decisions. The CEO is the subject of the following discussion, although the arguments are equally applicable to other senior executives.

7.8.1. Hiring and Replacing Executives

There is an old cliché that the board's most important decisions are hiring and replacing the CEO. Most Directors believe that this cliché is true. For example, Director M commented:

"In terms of [the] chief executive, that's the most important appointment the board has ever made. And obviously, the remuneration of the chief executive [and] the structure of that are the key part of the contract. And can make a difference if you recruit the right person or not..."

The Directors describe a common process for hiring a new CEO.¹⁷⁴ First, the board (or nominations committee) will consider what type of candidate is desired (e.g. qualifications, experience, personality, etc), and then hire a recruitment (or search) consultant to identify some candidates that fit this remit. Second, the recruitment consultant will seek expressions of interest, interview potential candidates and then draft a shortlist that they will present to the board. The short-listed candidates will normally include at least one insider (i.e. a senior executive in the company) and one outsider. Third, the board will interview the short-listed candidates and choose the candidate they believe is the most appropriate. In general, an insider will be selected if the board seeks continuity of the company's strategy, whereas an

¹⁷⁴ The process described here also applies to other senior executives, except that the CEO will lead the recruitment process (not the board).

outsider will be selected if the board wants the company to head in a new direction. Director N put this succinctly:

“It depends on the situation. My view would be it’s generally better to appoint from within, but the individual [has to be selected through] a competitive process... You appoint the best person for the job. If the company really needs change, [then an outsider would be appointed].”

Fourth, the board (and their advisors) will negotiate the employment terms and conditions with the candidate (and their advisors). The recruitment consultant may act as an intermediary during these negotiations.

The board’s ability to negotiate the candidate’s remuneration arrangements is potentially weakened because this is negotiated after the candidate has been selected, particularly if the candidate is already an experienced CEO and/or from outside of New Zealand. As a case in point, Director J described how his board’s ability to negotiate was weakened:

“[When] you have to go out into the market and hire someone... at chief executive level, [it is] a really powerful test or a check... of what you are doing as [best] practice. So for instance when I was on the board of [Company PQR], we made the decision... to get a new chief executive... So... as one does most of the time now, [we] retained a search consultant... And we were presented... with... two very good insiders [and] an outsider. Now... remuneration [is] a subset of [the] employment terms and conditions. So you’ve got a whole variety of factors there... [There is not] a standard... contract with the chief executive... So you start with a clean piece of paper. And a starting point, obviously, [is:] what has this person... been earning in their previous role [and] what are their expectations? So... in this case, [where the outside candidate had been working in an Australian company,]... he was already a very successful chief executive [with] a very fine track record. So you don’t go along to [him] and say, ‘...look, [we know] you... earn x now, [but] New Zealand is a very wonderful place [and] we’ll be obliged, if you come and work for us, [to pay you] x minus 20%. Thank you very much.’ You don’t do it. You can’t do it! Now in his case, we had to make adjustments and we felt that we were reasonable and appropriate...”

In general, Executives and Directors believed that an executive would not change jobs unless the new job has a higher potential remuneration. For instance, Director K opined:

“[For] really good chief executives, you never discuss [remuneration] except... when you hire them it is important. I’ve done a number of chief executive recruitments... and the biggest point of tension is when you hire them.”

The board has much more ability to negotiate remuneration with candidates when the job represents a significant advancement in their career (i.e. the candidate has not been a CEO). For example, Director L recalled that three new CEOs (who had previously not been the CEO

of a listed company) had actually accepted the board's remuneration offer without negotiating:

“Normally when they come on board, most of them will be fretting about what they get paid. [However, Person X] did not [and Person Y] did not. They were both so pleased to be CEOs that what we put to them, we thought what we put to them was reasonable, they didn't argue. [Person Z] was the same. But when they [the board and/or the CEO] are recruiting people... if you bring them [i.e. candidates] in from outside, then... you're trying to entice them to move from another company [and] then you'll have to pay them more than the other company's paying them, typically, otherwise they won't move... And I think if you want to make sure they don't leave you, you have to pay them fairly. So they have to perceive it to be fair and reasonable. So although it [i.e. remuneration] may not be the greatest motivator, it will be a factor in people's minds. If they think they are being hard done by, then at some point it may lead to [their] being attracted to another opportunity [elsewhere].”

Director L's remarks exemplify three other important points. First, the market principle is paramount because directors believe that CEOs will go elsewhere if they are remunerated at a level that is not comparable to other CEOs. Second, when changing jobs, some CEOs act as opportunistic agents (i.e. they want to maximise their potential remuneration), while other CEOs act as stewards (i.e. they are less concerned about their potential remuneration because they want a challenging and interesting job). Third, there is a war for talent, where boards are willing to remunerate talented (or superstar) CEOs at above median levels in order to attract and retain them. This ties the human resources principle (or Corporate Logic) to Rosen's (1981) extreme value theory and to Pfeffer and Salancik's (1978) resource dependence theory. Thus, the fairness principle (i.e. vertical equity between executives and employees) may be excluded from the version of Corporate Logic that is embedded in New Zealand's discourse on executive remuneration because there is excess demand for or a limited supply of talented executives.

Turning back to hiring and replacing CEOs, Directors affirmed that knowing when to replace CEOs is a critical decision. This underscores that Directors believe that CEOs are able to significantly influence firm performance and if firm performance is below expectations it means that the CEO (and, possibly, other executives) should be replaced with more capable or motivated individuals. The pay-for-performance principle is tied to the decision to replace CEOs, although severance payments may reduce the sensitivity of pay to performance. As a case in point, Director L declared:

“[I]f you’re at the very senior level, if you don’t perform, the ultimate sanction is you’re replaced... That’s where you get zero salary and zero everything else, of course. Although typically, when people move on they get some sort of compensatory payment. [This has] usually been prior agreed and set out in the contract. It’s the price you pay for lack of... [job] security...”

Remuneration may be less important to boards than expected because some Directors believe that to maximise executives’ ability to influence firm performance requires the board to have an advisory role, rather than a monitoring role. This is consistent with Corporate Logic.¹⁷⁵

Director M explained:

“I always say to boards that I am chairing, ‘Look, you can’t half employ a CEO. You are either right behind them or they are fired...’ You can have all these discussions you like [about] whether this guy is performing or not, [but at] the end of the day, you have to... back this guy [sic] because if you don’t then you are dead in the water... I think boards are a bit naive about this. They think they can have this carping and snipping about the CEO behind their back...”

However, other Directors maintained that the board should have a monitoring role, which is consistent with Investor Logic. Director O argued that the board has to continually evaluate the performance of executives:

“[T]hey [potential or new directors] don’t envisage that they’ll have to sit around with their fellow directors and decide whether the Chief Executive should keep his or her job, or in fact be fired. And yet that’s a pretty common [decision]. Every year, and maybe, three or four times a year in many companies, you’ve got to have a view about how the management team and the Chief Executive are performing. And a lot of people that want to be directors just have no idea how you’d do that.”

On the whole, the decision to hire and replace executives is driven by Directors’ assumptions that executives significantly influence firm performance. This is illustrated by Director O:

“So around the performance conversation... there should be a strong focus on consequences. And if it’s a one-off, the first time an executive’s failed, you’d say, ‘Well, you know, it’s not very good, we’ll have to do better next time’... you might restructure the incentives a bit differently for the next year. But if they miss a second time... you probably are in the position of saying, ‘Okay, we’ve got to get pretty focused on this. What’s going wrong and what are we going to do to avoid it happening again and recover the position?’ And that is getting into the area of removal from role as far as I’m concerned. And that’s something boards are absolutely terrible at: Holding a poorly performing Chief Executive to account and making the decision that they should be removed from role... I think many directors find the whole process around that entirely foreign and highly uncomfortable...”

¹⁷⁵ Corporate Logic conceptualises the board as advisors to the CEO and other executives, whereas Investor Logic conceptualises the board as monitors of these executives (see Chapter 2, Section 2.2.5 and Table 2.3).

7.8.2. Making Remuneration Decisions

There are many remuneration decisions that the board and RemCo make. Most decisions have already been discussed in the preceding sections. However, some decisions require further explanation. These include: Designing remuneration policies and practices, selecting performance measures, setting targets for CEOs, reviewing the performance of CEOs, hiring remuneration consultants and evaluating their data and advice, and finally, awarding remuneration to CEOs.

7.8.2.1. Designing Remuneration Policies and Practices

The RemCo designs the general framework for the company's remuneration policies and practices. Director N summarises:

“[The] remuneration committee should typically meet at least twice a year. What you're going to do is you set the objectives and so on, KPIs and so on, and the overall quantum, and the principles and policy that would apply to the company. And then you've got to review performance.”

However, several parties will influence how the RemCo designs this general framework including executives, other companies, remuneration consultants and investors (see Sections 7.5.1, 7.5.2, 7.5.4 and 7.5.5). As a case in point, Director K recalls:

“[W]e had four players: we had the Chief Executive, the remuneration committee of the board, the professional firms (giving you input particularly around salary levels), and then you had your human resources officer.”

Codes are not strongly influential in how Directors make remuneration decisions (see Section 7.5.6). However, codes are incorporated into the general framework in some companies. For example, Executive D notes:

“We review all of those [codes] and we try to distil to our own policy... I think we probably pretty much comply with all those [codes]... [It is] just good practice... I mean, we are not a company who does any strange things from a governance point of view.”

As discussed in Section 7.6, the interviewees agreed that the remuneration principles represent ‘best practice’. The remuneration principles, particularly the human resources, market and pay-for-performance principles are incorporated into the general framework of most companies. In addition, the interviewees agreed that there is a standard remuneration package for executives, although some criticised elements of it (see Section 7.7). Drawing on

this evidence, two arguments are made. First, most companies' remuneration policies and practices are consistent with both Logics. Second, the process of designing the remuneration policies and practices are perceived as rational, but is constrained by norms (or best practice) and societal expectations (or their perception of investors' and the public's reactions to their design choices).

7.8.2.2. Selecting Performance Measures

Executives and Directors outlined a range of performance measures on which the short- and long-term incentives are dependent (see Sections 7.7.2 and 7.7.3). Financial performance measures are considered to be most important, particularly earnings per share and total shareholder return. Non-financial performance measures are also important, but Executives and Directors preferred performance measures that they considered to be robust. However, some Directors argued performance should be evaluated holistically, even if some items cannot be measured. As a case in point, Director O explained:

"[T]he report that I'm getting from the Chief Executive on how they think they've done is six pages of very detailed information. And because the information is comprehensive, most of it is based on quantitative measures, so there is not much room for uncertainty. But I also think you shouldn't shy away from having non-quantitative stuff as well [such as] quality of leadership, development of culture. Although quite a bit of the culture stuff is quite well quantified."

Each Director appeared to favour slightly different performance measures. Some preferred earnings per share and other accounting measures, while others preferred Economic Value AddedTM and total shareholder return. The performance measures that are chosen or recommended are consistent with both Logics. Further, the process of selecting measures is comparable to that described above. However, Directors' past experiences are also influential in that they have strong preferences for certain performance measures.

7.8.2.3. Setting Targets for Executives

The Board or RemCo sets a range of targets for executives (see Sections 7.7.2 and 7.7.3). There are two ways in which targets are set for executives: First, the CEO prepares a business plan, including a range of targets, and submits it to the board for approval. For instance, Executive A commented, *"[W]e've always got a range of targets that are usually fairly highly aligned with our strategic plan's targets."* Second, the board or RemCo gives the CEO a range of targets. The first way is most common because the CEO has greater knowledge of what is important for the company than the board. For instance, Executive B argued:

“[The business plan] will get approved by the board. Then I will write a set of objectives [and] then submit them to the board for their input. You can find that if it’s done the other way round [and] you left it to the board: then they are utterly hopeless.”

In either case, there is likely to be some discussion and, to some degree, negotiation between the board and CEO over the targets. For example, Executive A recalls, “[There is] a huge amount discussion on targets... We don’t set targets with the remuneration in mind. We set targets [and] we reviewed all the factors that affect the targets...” Further, there will also be a similar process in place for setting the targets for the CEO’s direct reports, although the board or RemCo may approve the targets. Director G summarised:

“So you start with a standard model saying... What are the KPIs? ...What time frame are we talking about here? Of course as you know there has been a huge debate [on] the way these parameters should be set and how they should be measured... You don’t want six parameters [that are] all highly correlated.”

The objective is to set targets that are challenging but achievable within the specified timeframe. Director F affirms: “One of the principles [of] remuneration is you should not set a target for management which will be unachievable. That’s just silly.” However, targets, in retrospect, will inevitably appear to have been set too low or high because of uncontrollable and unforeseeable factors (e.g. see Director H’s comment in Section 7.7.2).

7.8.2.4. Performance Reviews

Performance reviews are conducted in a variety of ways from informal to formal. For example, Executive A described:

“I have really a formal process, a partially formal process and a very informal process. In terms of the formal process, I have performance criteria and personal objectives, and I sit down with the chairman once a year. It’s all written down and [I] get a rating against all those criteria and... objectives... We usually do a half year check [as well]... The semi formal process involves the board and the CEO... It’s just feedback and suggestions... [That is] done twice a year with the board. So each board member including me... gets a sheet of paper, [which has on it] the general feedback... and specifically, how they feel I am contributing to the board and how I am doing as a chief executive... And then there’s the informal process, where we encourage open discussion [at] board level... You get feedback all the time on things you’ve done well and on things you haven’t done so well...”

Most companies also have similar processes for reviewing the performance of senior executives, except that it is the CEO who reviews each executive’s performance.

Generally, Executives and Directors were supportive of these processes. They argued that open dialogue between the board and CEO (and other senior executives) is crucial to achieving the company's objectives. This is illustrated by Director O:

“My view is that the chairman would recommend to the remuneration committee an assessment of the chief executive... [However,] sometimes... to reach a conclusion you often have to have quite a debate. And people will say, ‘You can’t do that. That’s very destructive.’ I totally disagree. I think it’s very constructive because people... have to engage, debate... Now in a good company... this is often explicit in the performance objectives that there must be a dialogue through the year, so that the Chief Executive knows how they are tracking on the non-quantitative measures.”

However, Executive B has not been satisfied with how boards have reviewed his performance in the past:

“Board members are part-timers... so they don’t actually know much in reality about what’s going on [with respect to] performance... So I’m always mindful [that performance reviews are] not the easiest thing. And [the board] sort of have a half-hearted go... [It] will usually be... an unsatisfactory process around conversations about packages... coz’ they are so stuck on your advice. And [they] sort of formulate a way doing it and life moves on.”

On the whole, interviewees characterised the performance review process for CEOs as rational in that through dialogue and debate between the board and the CEO and, similarly, between the CEO and his/her direct reports, all of them will gain a better understanding of how to maximise shareholder value. Thus, there is a strong emphasis on advising CEOs, rather than monitoring them. This is consistent with Corporate Logic.

7.8.2.5. Hiring and Evaluating Remuneration Consultants

Almost all companies hire remuneration consultants to provide the RemCo and, possibly, the CEO with data and advice on executive remuneration. Notably, some Directors only received data from consultants, whereas others received data and advice. In terms of the latter, consultants would present their recommendations to the board or RemCo. A number of interviewees commented that companies use remuneration consultants to enhance the efficacy and legitimacy of their decision-making (see Section 7.5.4).

There are three main differences between remuneration consultants. First, some consultants are known to be conservative in their estimates of the market rates for CEOs, whereas others are known to be optimistic (or generous) in their estimates. Second, some consultants’

estimates are based on publicly available information, whereas others' estimates are based on their own data (gathered through surveys of companies). Third, some consultants use job evaluation systems as a means of comparing executive roles across industries and sectors, others only compare executive roles that are deemed similar (e.g. CEOs of listed companies, scaled by firm size). However, there was no consensus among Directors on which type of remuneration consultant is most desirable.

7.8.2.6. Awarding Remuneration to CEOs

The process of awarding remuneration to executives is standardised. Fixed remuneration is tied to a specified position relative to a comparator group (see Section 7.7.1 and 7.7.5). Variable remuneration is tied to both fixed remuneration (e.g. maximum award is expressed as a percentage of base salary) and performance. Performance will be quantified using a variety of measures, although the board and RemCo will consider other aspects of performance. The CEO's strategic and business plans will influence the choice of performance measures and targets, although Directors do have preferred performance measures. The performance of the CEO and other senior executives will be regularly reviewed in both formal and informal ways. The board is focused on advising (not monitoring/policing) executives, although they will replace executives for non-performance. Following the performance reviews, the RemCo makes a recommendation to the board on the CEO's remuneration package, and similarly, the RemCo reviews and approves the CEO's recommendations for other senior executives. The board or RemCo may still award bonuses if targets are not met, although only in exceptional circumstances. Director B illustrated the complexities of this point:

"What can be an issue is if your incentive is to meet budget and you fall short by a few dollars... and... the incentive is quite significant. Is it fair [for the board] to say, 'No'?... [It can be] quite a discussion... [I]f you start allowing for minor shortfall, then when does it stop being minor?"

On the whole, this process matched what is described in management and accounting textbooks (e.g. Anthony and Govindarajan, 2007; Hanson et al., 2005) and by Ferreira and Otley's (2009) performance management framework. This is a rational process. However, companies follow a standardised process because the preferences of Directors and others may be institutionalised, not autonomous. For example, the interviewees have a shared belief that shareholder value maximisation should be the corporate objective (see Section 7.3). Further, the RemCo's decisions are influenced by coercive (e.g. regulators), normative (e.g. directors'

shared beliefs) and mimetic (e.g. competitors and consultants) pressures (see Section 7.5). They are also influenced by what they believe is appropriate or legitimate. As a case in point, remuneration decisions are constrained by directors' perceptions of how the public (particularly investors) will react to their decisions (see Sections 7.5.5 and 7.5.7). Finally, the RemCo's decisions are influenced by fads and fashions.¹⁷⁶ For instance, some directors noted the trend away from share options towards restricted shares in spite of their belief both types of long-term incentives can align executives' interests with those of shareholders.

7.8.3. Reporting Remuneration Decisions

The board also has to decide how to report remuneration decisions in press releases, in the company's annual report, on the company's website, at meetings with analysts and institutional investors and at the annual general meeting with shareholders (see Section 7.5.5). The company's annual report is the primary means by which remuneration decisions are disclosed to the public. In terms of the company's annual report, the board has to decide who will write and review the remuneration disclosure. They also have to decide (or advise the writers) how much to disclose and how to phrase the remuneration disclosure.

Typically, the senior management and their staff prepare the remuneration disclosure for the company's annual report, although some disclosure may be outsourced to public relations consultants. As a case in point, Executive B declared:

"I find it extremely boring. As far as we possibly can, we hire people to write it... They usually have a session with me saying '...What do you want to cover?' I give them a broad outline... and they go to write it all."

However, it is rare for remuneration consultants to be involved in preparing the remuneration disclosure.

Further, the board and/or RemCo will review and approve the relevant sections of the annual report. The extent of the board's and the RemCo's involvement in writing the narrative portion of the remuneration disclosure varies considerably between companies. For example, Director F commented that, *"The management will do all the writing."*

In contrast, Executive B claimed:

¹⁷⁶ Abrahamson's (1991; 1996) seminal work discussed how managerial fads and fashions constrain managers' decisions and results in, at least temporary, isomorphism of practice.

“[R]eporting is driven a lot by your board. Executives, by and large, want to report less as a rule... to meet the minimums because managers don’t value the expenditure of time on reporting. Public reports are not marketing documents anymore.”

Director L provided additional insight:

“[T]he remuneration report in most companies would be drafted in the initial instance by somebody at senior level in the human resources... department... And... there would also be substantial input from the company secretary to ensure that the phraseology was acceptable and met all of the legal disclosure requirements as well. These are things where you have to have a high level of accuracy. And where you’ve got computational matters that need to be addressed like valuation of options... then it would be referred to usually the Chief Financial Officer. One of his team would be a specialist in that, [but] if he was not a specialist then computational work would be done by the human resources department.”

Chapter 6 shows that NZ listed companies disclose scant narrative and financial information on executive remuneration. Larger NZ companies (particularly if they are listed on multiple stock exchanges) tend to disclose more than smaller NZ companies, but all NZ companies disclose much less than AU and UK companies.

Executives and Directors had mixed opinions on how much companies should be required or choose to disclose. Some want to be known as leaders in disclosure as one anonymous Executive avowed:

“We pride ourselves on our reputation and our integrity. We made our business as transparent as we can... [We are willing to] up the disclosure on remuneration from where we currently are... [It is] about just being transparent. [If] the shareholders... [want to] have more information... then we provide it. There’s nothing to hide. We are happy to stand up and... justify decisions that we made... And we have always felt that [if you] create transparency, you create performance... The principle of more disclosure is absolutely the right thing to do.”

Similarly, some Directors are amenable to providing voluntary disclosure on executive remuneration. For example, Director E explained why a particular company had decided to increase their voluntary disclosure:

“[W]e got the board to agree that if you do it properly, you send the signals to shareholders and you’ll get the shareholders’ support [which we needed because]... it is a capital intensive business...”

Others choose to disclose the minimum that is required. As a case in point, Executive C said: “[W]e will report the minimum amount we have to report. So yes, we comply with what we have to comply with, but anymore than that, we would not do it.”

Executive B explained why there is variation in the amount that companies disclose:

“[W]e’ve got a board who... sets the standard very high even on disclosure and reporting... but other companies choose to do very little. Other companies as a rule report nothing if they don’t have to. They just don’t value the effort. For them, having the CEO spending a day proof-reading drafts of the report [is] just a waste of time to them.”

Director M provided additional insight:

“I think they all accept the fact that shareholders are entitled to know what they are being paid. Some are more sensitive about what the various components are and they would prefer not to disclose anything more than the statutory requirement... So that’s why there’s variation.”

Most believed that current disclosure requirements are sufficient and that voluntarily disclosing extra information on executive remuneration has no benefit and may harm the company. Three reasons for not disclosing additional information on executive remuneration were often given. First, listed companies will have a competitive disadvantage if it has to disclose the precise targets that are tied to executives’ short- and long-term incentives because their competitors (who are often private companies that do not have to disclose) will know their strategy. For instance, Director C argued:

“[You] must be prepared to have complete transparency to shareholders and the public. [However,] I’m against the publishing of STIs [particularly the targets] simply because it’s commercial information that would potentially damage the company...”

Similarly, Executive D maintained:

“We put some of them in our report... I guess you always have to strike a balance with disclosure because our shareholders read it [and] so do your competitors... There are things that shareholders... and analysts would like to know but we do not necessarily want to tell our competitors... those things... [Companies are] encourage[d]... to disclose all remuneration details for your top five executives. But we say, ‘Sorry, we are not doing that because that’s information that we think people, who might want to hire our staff, need to know.’ Unless that becomes mandatory, we won’t disclose it.”

Second, if how much each executive is paid is disclosed, then competitors would be able to more easily lure executives to their company (e.g. see Executive D’s comment above and

Director L's comment in Section 7.5.2). Third, the level of remuneration will be ratcheted upwards if companies' choose to or are required to provide additional disclosure on executive remuneration. Director L asserted:

"[D]isclosure requirements, which were really... originated with a bunch of voyeurs and... people who... were... envious of what might get paid in the corporate world... [They] have probably led to a ramping up of remuneration because it has led to everybody having much better information about what somebody else gets paid and then wanting to get paid the same."

Further, Executives and Directors believe that remuneration disclosure should be easy to understand and faithful to the company's remuneration policies and practices. Remuneration disclosure should not be misleading (c.f. one anonymous Executive's comment in Section 7.6.8). However, some Directors noted that a boilerplate phraseology for remuneration disclosure may be emerging, and this reduces the information content of the disclosure. Director I explained:

"So the danger for disclosure is people will be compliant. If you require them to disclose, they will be compliant. But over time they will evolve their language around compliance: essentially [it] becomes meaningless."

Executives and Directors attitudes towards remuneration disclosure are generally consistent with Corporate Logic because they believe that shareholders will not gain much insight from remuneration disclosure and shareholders should not be involved in deciding how much executives are paid (see Section 7.5.5). Directors do not believe that additional remuneration disclosure and shareholders' voting on a remuneration report would act as a control mechanism on executive remuneration. Such a view would have been consistent with Investor Logic.

For example, when Directors were queried on the nature of Australia's and the UK's remuneration reports and the requirement for shareholders to vote on them, they expressed opinions that were consistent with Corporate Logic. Director H simply commented, *"I don't know. Maybe the whole thing is going mad a bit. I can't add a lot to it."*

Director F admitted:

"I'm a bit old fashioned [as] I think that directors were appointed to set the remuneration of the chief executive. And if the shareholders don't like that, [then] they should fire the directors. You shouldn't... give shareholders the ability to approve, [whether or not the vote is] binding or non-binding, [the] remuneration of the chief executive."

Director L testified:

“I think shareholders should set directors’ remuneration and they should elect directors, and directors should set management’s remuneration. If shareholders are unhappy with what directors are doing, they should not re-elect the directors. Right! And they should not approve directors’ remuneration. Right! That’s how they fix it... You don’t just start getting bloody [sic] masses of shareholders voting around particular operational issues of the company – that’s not how you get things fixed. No, I think it’s ridiculous. Absolutely nuts! It’s not based on any sensible governance. It’s just based on public opinion and media noise.”

Overall, most Executives and Directors believed that remuneration disclosure should be kept to a minimum and Directors should remain in control of deciding executive remuneration. This is consistent with Corporate Logic.

7.8.4. Summary and Implications

Executives and Directors described the process of making and reporting remuneration decisions as well as how the process should occur. Their descriptions and opinions were consistent with Corporate Logic because they emphasised an advisory role for the board, where executives and directors collaborate to make remuneration decisions which will maximise shareholder value. Directors also believed that meeting minimum remuneration disclosure requirements is sufficient, although some Executives and Directors wanted their companies to be known as leaders in remuneration disclosure. Further, the process of making and reporting remuneration decisions is rational in that Executives and Directors attempt to make decisions that are most likely to result in shareholder value being maximised. However, the process is influenced by concerns for legitimacy. Directors do not want to make decisions that are criticised by the public, particularly investors (also, see Section 7.5). Directors’ perceptions of best practice also influence their decisions.

7.9. Conclusion

The main conclusion is that both Corporate Logic and Investor Logic are deeply embedded in the discourse on executive remuneration, although both Logics influence remuneration decision-making in different ways. This conclusion is drawn for a number of reasons. First, NZ listed companies have a conservative approach to executive remuneration (Corporate Logic). Second, shareholder value maximisation is the favoured corporate objective (both Logics). Third, Executives and Directors believe that executives are motivated by both

extrinsic and intrinsic rewards (both Logics), but executives do not usually put their interests ahead of those of shareholders (Corporate Logic). Fourth, the RemCo is influenced by many parties including executives, other directors, consultants, investors, the media, and, to a lesser extent, code issuers. Corporate Logic fits the internal dynamics of the RemCo, while Investor Logic fits the external dynamics of intense investor and media scrutiny. Fifth, Directors strongly agree with the remuneration principles, although the fairness principle is redefined (both Logics). Sixth, some Directors favoured low variable remuneration and conceptualised incentives as a profit-sharing mechanism (Corporate Logic), whereas others favoured high variable remuneration and conceptualised incentives as a control mechanism (Investor Logic). Seventh, the process of remuneration decision-making is characterised as collaborative, where the board and RemCo have an advisory role (Corporate Logic), although the board and RemCo do not exist to rubber stamp the CEO's decisions.

Another conclusion is that both Logics are able to co-exist in the discourse. This conclusion is drawn for several reasons. First, Directors have a high tolerance for ambiguity. For example, while some Directors believed that executives are trustworthy stewards, they also believed that financial incentives were necessary (both Logics). Second, Directors prioritise the remuneration principles in order to minimise conflict: The market principle is dominant (Corporate Logic). Third, Directors keep remuneration decisions separate to minimise conflict (both Logics). Fourth, different Directors justify the standard remuneration package using different remuneration principles (both Logics). Fifth, Directors are not subject to strong coercive and normative pressure. For instance, NZ remuneration disclosure requirements are limited and all NZ codes related to executive remuneration are non-binding or voluntary. Directors are subject to normative pressure in the form of professional norms that emerge from directors' and their consultants' networks as well as mimetic pressure in the form of a desire to make remuneration decisions that are similar to their competitors (which is further reinforced by consultants). These institutional pressures are not strong, but are likely to reinforce Corporate Logic and, to a lesser extent, Investor Logic.

However, at least one mystery remains: There is a standard remuneration package for executives of NZ listed companies and this package is indicative of a compromise between Corporate Logic and Investor Logic, yet NZ listed companies are subject to less institutional pressure than their international counterparts and the remuneration principles afford RemCos much flexibility in justifying their decisions to investors. Put differently: Why do RemCos

make the same decisions when there is a wide-ranging distribution of opinions among Executives and Directors? It may be that as RemCos follow comparable processes in making decisions, they inevitably reach similar decisions. Rationality may have isomorphic effects, particularly if directors' preferences are institutionalised (not autonomous). Further, RemCos are concerned that their decisions are legitimate in the eyes of the public, particularly investors. This may constrain their decisions. For example, Executive D suggested that RemCos adopt incentive schemes as a justification to investors for paying executives at the market rate. This also suggests that remuneration practices can be symbolic. It may be that Corporate Logic is substantiated in practice, whereas Investor Logic is used as a symbolic discourse in corporate annual reports. These issues are further discussed in the next chapter.

Chapter 8: Discussion

8.1. Introduction

The purpose of this chapter is to discuss the findings from Chapters 5, 6 and 7 in the context of the literature reviewed in Chapters 2 and 3. In particular, Zajac and Westphal's (2004) finding that there has been a transition from Corporate Logic to Investor Logic is reconciled with the present study's finding that both Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration. Consideration is given to the beliefs of directors, executives, investors, code issuers and others. Despite having a range of beliefs, these parties are united by their belief in shareholder value maximisation. This partially explains why both Logics are embedded in the discourse. Other reasons are also discussed, particularly competitive and institutional pressures. In addition, how remuneration committees are able to strategically respond to competitive and institutional pressures is explored. Further, how both Logics constrain and enable remuneration committees is explained. Thus, this chapter attempts to bridge the macro-micro divide by explaining how remuneration committees are influenced by both Logics, and contribute to and change the legitimacy of both Logics in society.

The chapter is organised as follows. Section 2 revisits the definitions of Corporate Logic and Investor Logic and proposes a definition for a new logic, 'both Corporate Logic and Investor Logic'. Also, some observations are made on the distribution of belief in Corporate Logic and/or Investor Logic amongst directors, executives, investors, code issuers and others. Section 3 challenges Zajac and Westphal's (2004) argument that Investor Logic originated in the 1970s. The origin of Corporate Logic is also considered. Then, the process by which Corporate Logic and Investor Logic were most likely diffused is described with emphasis on recent history (1980s-2000s). A strengthening of Investor Logic over time as a legitimate discourse in AU, NZ and UK is noted. Section 4 explains how Corporate Logic and/or Investor Logic have become embedded in this discourse on executive remuneration. Particular attention is also given to how both Logics influence how remuneration committees make and report decisions. Section 5 introduces the original concept of the institutional position and explains the different ways in which Corporate Logic and Investor Logic can co-exist in the discourse.

8.2. Nature of and Distribution of Belief in the Institutional Logics

Both Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration (see Chapters 5, 6 and 7). Two aspects of this finding are discussed here. First, the nature of the institutional logics is considered. Drawing on the findings and prior research, definitions of Corporate Logic, Investor Logic and both Corporate Logic and Investor Logic are constructed. However, these definitions are not definitive and can change over time because institutional logics are socially constructed (Thornton and Ocasio, 2008). Second, the likely distribution of beliefs amongst executives, directors, code issuers, investors and others is explored. Most code issuers and companies appear to have beliefs that are consistent with Investor Logic only or both Corporate Logic and Investor Logic (see Chapters 5 and 6). Directors and executives have beliefs that are consistent with one of the three aforementioned institutional logics (see Chapter 7). How and why the distribution of beliefs has changed over time is discussed further in later sections of this chapter.

Corporate Logic is a set of normative beliefs, including shareholder value maximisation as the corporate objective, executives behave as stewards (or trustworthy professionals), and executives should be remunerated comparably to their peers (see Chapter 2, Section 2.5.3; Chapter 3, Tables 3.2 and 3.5; Chapters 5, 6 and 7). However, there are differences between the theoretical (normative) and practiced versions of Corporate Logic. First, there is a belief expressed by some directors that the executives they hire are very talented and should be remunerated at the upper-quartile relative to their peers (see Chapter 7; Ogden and Watson, 2011). If a significant portion of directors share this belief, then executive remuneration will be ratcheted upwards over time. Second, directors and executives do not believe in the fairness principle or vertical equity between executives and employees (see Chapter 7; Bender, 2004). Further, Corporate Logic is consistent with some beliefs expressed in the texts of companies and code issuers in AU, NZ, the UK and the US (see Chapters 5 and 6; Crombie et al., 2010). Also, US investors' beliefs were consistent with Corporate Logic in the 1970s (Zajac and Westphal, 2004).

Investor Logic is a set of normative beliefs, including shareholder value maximisation as the corporate objective, executives behave as agents, and executives should be remunerated for their individual contributions to firm performance (see Chapter 2, Section 2.5.3; Chapter 3, Tables 3.2 and 3.5; Chapters 5, 6 and 7). There are no significant differences between the

theoretical (normative) and practiced versions of Investor Logic. Notably, directors and executives recognise the theoretical (or abstract) nature of shareholder value maximisation because shareholders have different risk preferences and investment time horizons (see Chapter 7; Hendry et al., 2006; Lok, 2010). Essentially, code issuers and companies believe that executives can be programmed to maximise shareholder value using short- and long-term incentive schemes (see Chapters 6 and 7). Further, Investor Logic is consistent with some beliefs expressed in the texts of companies and code issuers in AU, NZ, the UK and the US (see Chapters 5 and 6; Crombie et al., 2010). Also, Investor Logic is consistent with the beliefs of investors in NZ, the UK and the US (Chiu and Monin, 2003; Lok, 2010; Zajac and Westphal, 2004).

Aside from a common belief in shareholder value maximisation, Corporate Logic and Investor Logic are opposing beliefs systems. Believers in Corporate Logic conceptualise short- and long-term incentive schemes as a mechanism for sharing profits between executives and shareholders (see Chapter 7). On the other hand, believers in Investor Logic conceptualise incentive schemes as a mechanism for controlling and directing executives (see Chapters 6 and 7; Bender, 2004; Lok, 2010). The tension between Corporate Logic and Investor Logic is resolved if firm performance is meeting or exceeding expectations. For example, a NZ executive argued that remunerating executives at the competitive level required the adoption incentive schemes in order to legitimise the level of remuneration to those directors and investors whose beliefs were consistent with Investor Logic (see Chapter 7, Section 7.7). From the Investor Logic perspective, incentives schemes are only effective if variable pay is sensitive to firm performance. Thus, if firm performance declines, then incentive schemes can no longer be used as a justification for paying executives at a competitive level. This tension between Corporate Logic and Investor Logic is exacerbated by a further belief held by NZ executives and directors that greater effort is required when performance declines than when performance rises (see Chapter 7). Therefore, the conclusion that Corporate Logic and Investor Logic can co-exist (or merge) is paradoxical.

Nevertheless, both Corporate Logic and Investor Logic are sets of normative beliefs that are both embedded in the texts of code issuers and companies in AU, NZ, the UK and the US (see Chapters 5 and 6; Crombie et al., 2010; Zajac and Westphal, 1995). For executive remuneration, the core belief is that executives should be remunerated at the median relative to their peers when firm performance is below or at expectations, and at the upper quartile

relative to their peers when firm performance is above expectations. Essentially, executives have plenty of upside potential, but limited downside risk. However, executives may be replaced if firm performance is very low; replacing executives is an enactment of the pay-for-performance principle (see Chapter 7). This is a pragmatic approach to executive remuneration, where directors and executives are tolerant of ambiguity (see Chapter 7; Esienberg, 1984). Further, executive remuneration practices can be justified with multiple remuneration principles (see Chapters 6 and 7). This may enable believers in either Corporate Logic or Investor Logic to rationalise any remuneration decision.

Another possibility is that Corporate Logic and Investor Logic can co-exist because one or both Logics are symbolic, not substantive (Fiss and Zajac, 2004, 2006; Zajac and Westphal, 1995, 2004). For instance, the level of remuneration can be manipulated by selecting a skewed comparator group and incentive payments can be manipulated by setting easy targets (e.g. see UK's official reports: Greenbury, 1995; Trade and Industry Committee, 2003). Investor Logic would be symbolic if such manipulation occurred. Some argue that this has occurred because the empirical evidence indicates a weak relationship between CEO pay and firm performance (see Chapter 2, Section 2.2.5 and Chapter 3, Section 3.2). However, a weak relationship can also be explained if Corporate Logic is substantive and Investor Logic is symbolic (this is consistent with the aforementioned NZ executive's argument). The reverse could also occur, where Investor Logic is substantive and Corporate Logic is symbolic. For example, some companies used the human resources and market principles, but had a very strong emphasis on performance-based remuneration (e.g. CGU, UK, 1998 in Chapter 6, Section 6.3.3). Further, both Logics may be symbolic. This is consistent with Bebchuk and Fried's (2004) managerial power theory, where executives effectively set their own pay because the board of directors is selected by the CEO. The symbolic and substantive nature of Corporate Logic and Investor Logic is discussed further in Section 8.5.

The only alternative Logic embedded in the discourse on executive remuneration is Stakeholder Logic (see Chapter 6; Fiss and Zajac, 2004, 2006). Prior research indicates that Stakeholder Logic is most likely to be embedded in the discourse in Asian and European countries (see Chapter 2, Section 2.5.2). Thus, it is not surprising that the present study indicate that Stakeholder Logic is symbolic because only Anglo-Saxon countries were studied. For code issuers, shareholders' interests are prioritised ahead of non-shareholder stakeholders' interests (see Chapter 6). For companies, non-shareholding stakeholders are

conceptualised as the means to the end of shareholder value. For example, the Commonwealth Bank of Australia (2007, p.59) stated, “The objective of the new [long-term incentive] plan is to motivate participants to increase profitability and customer satisfaction in order to improve long term shareholder value”. This is consistent with a corporate objective of *enlightened* shareholder value maximisation (Sundaram and Inkpen, 2004a). Further, several AU and UK companies had mission statements consistent with stakeholder value maximisation, but their performance measures were profit- or market-based (e.g. earnings per shares, return on capital employed and total shareholder return). Interestingly, Zajac and Fiss (2006) found some German companies decoupled their mission statements and practices.

Chapters 5, 6 and 7 provided some insight into the distribution of beliefs among investors, employees, customers, and other stakeholders. Shareholder value maximisation is both the recommended and practiced corporate objective in Anglo-American countries (see Chapters 6 and 7; also, see Edmonds and Hand, 1976; Hansmann and Kraakman, 2001; Hendry et al., 2006; Lazonick and O’Sullivan, 2000; Lok, 2010; Pye, 2000, 2001; Wen and Zhao, 2011; Witt and Redding, 2012). Either Corporate Logic or Investor Logic may be legitimate in Anglo-American countries. Zajac and Westphal (2004) found that the legitimacy of Investor Logic waxed while Corporate Logic waned among US investors in the late 1970s and early 1980s. While investors’ beliefs were not directly examined, there was evidence of a strengthening of Investor Logic in AU, NZ and the UK from the early 1990s onwards. The standard remuneration package for executives became increasingly complex with more incentive schemes, performance measures and targets adopted, although future research is required to ascertain the precise nature of these changes (see Chapter 6). Further, NZ directors and executives commented on a change in NZ culture from egalitarian to meritocratic as well as an increasing adoption of incentive schemes and an increasing proportion of (potential) variable remuneration (see Chapter 7). On the whole, while both Logics are embedded in the discourse, Investor Logic appears to be stronger than Corporate Logic (see Section 8.4.4).

8.3. Origins and Diffusion of Corporate Logic and Investor Logic

The origins of Corporate Logic and Investor Logic have not been discussed thus far. Zajac and Westphal (2004) argued that Investor Logic originated in the late 1970s. Investor Logic became increasingly embedded in the discourse of US investors and regulators and companies in the 1980s. They did not discuss the origins of Corporate Logic. Further, they

conceptualised the process of diffusion as one-way. Following poor economic growth in the 1970s, US investors' and regulators' beliefs changed from Corporate Logic to Investor Logic, and then US companies conformed by adopting practices and espousing discourse that was consistent with Investor Logic (although some these practices were symbolic). Following Zajac and Westphal's (2004) method, the present study imply that AU, UK and, to a lesser extent, NZ companies also conformed to institutional pressure from code issuers and transitioned from no Logic to both Logics in the 1990s. However, this interpretation assumes that public documents (e.g. corporate annual reports) are reflective of the beliefs that were held in society at the time. This is problematic because companies did not disclose how remuneration decisions were made until the mid-1990s, but remuneration decisions were obviously made before then. Therefore, the remainder of this section considers the origins of Corporate Logic and Investor Logic and then the process of diffusion and institutionalisation.

8.3.1. Origins of Corporate Logic and Investor Logic

With respect to remuneration, the core beliefs that are now called Corporate Logic and Investor Logic have their origins in the emergence of the organisation, where employers hired employees. Corporate Logic implies that employers can trust their employees to make decisions that they would make as long as they remunerate the employees comparably to their peers. Investor Logic implies that employers cannot trust their employees to make decisions that they would make unless they use monitoring and incentives to control and direct their behaviour. Thus, Corporate Logic and Investor Logic will both have emerged hundreds (if not thousands) of years ago with the first organisations. As the first organisations emerged, there would have been a progression from sharing tasks in groups to a division of labour and then to managerial hierarchy and a separation of ownership and control. Corporate Logic and Investor Logic may have emerged at different stages during this progression.

Corporate Logic and Investor Logic have no precise origins because ideas and language evolve over time. However, the theoretical underpinnings of Investor Logic were developed at least by the time of the British Industrial Revolution in the mid-1700s. Adam Smith (1776, p.936) briefly mentioned remunerating directors with a portion of the company's profit as a means of controlling directors. More substantively, John Stuart Mill (1848, p.157) observed:

“[I]t is a common enough practice to connect [the managers of joint stock companies'] pecuniary interest with the interest of their employers, by giving them part of their remuneration in the form of a percentage of profits.”

By the early 1900s, Corporate Logic and Investor Logic were entrenched in the academic and business discourse on executive remuneration. An early exemplar of Investor Logic is Fredrick W. Taylor's (1911) *The Principles of Scientific Management* with respect to his emphasis on using monitoring and incentives to control employees. In contrast, an early exemplar of Corporate Logic is Chester I. Barnard's (1938) *The Functions of the Executive*. Barnard (1938, p.143) wrote:

“Notwithstanding the great emphasis upon material incentives in modern times... there is no doubt in my mind that unaided by other motives they constitute weak incentives beyond the level of bare physical necessities.”

Further, Milkovich and Stevens' (1999) findings are suggestive of US companies having a standard remuneration package since the early 1900s and that the underlying approach was based on the market and pay-for-performance principles (i.e. both Logics). However, they also argue that there was a concern for vertical equity (or the fairness principles) from 1925 to 1975.¹⁷⁷ This is consistent with other writers' arguments that Corporate Logic was strongest in that period (e.g. Boyer, 2005; Zajac and Westphal, 2004). Adding weight to this argument is that the real value of CEO compensation in US companies barely rose from the 1950s to 1970s (Frydman and Saks, 2010).

Moreover, John C. Baker's work on executive remuneration in the 1930s and 1940s illustrated that there were two types of companies: Those supportive of performance-based remuneration and others that believed incentives were not necessary. Baker (1936, p.61) laid out the reasons for and against each approach and concluded that both approaches have merit:

“At present more and more companies are adopting incentive payment plans for executives or reviving plans which were dormant during the depression. This study suggests that executive compensation, as far as it relates to salary and bonus plans, may follow two lines in the near future: (1) large cash salaries for senior (or “policy”) executives with no bonuses, or (2) cash salaries with moderate bonuses after dividends have been earned and paid to stockholders. By such arrangements, it is believed, the desirable mutuality of interests between owners and management would be best served.”

This illustrates that the Corporate Logic and Investor Logic were competing, not co-existing in the discourse on executive remuneration. However, Baker (1940, p.120-121) in later work

¹⁷⁷ A strengthening of Investor Logic from the late 1970s onwards, particularly in the UK and US, may have been triggered or spurred on by the socio-political changes at the time. There was a shift from corporate capitalism to market capitalism with Thatcherism in the UK and Reaganomics in the US as well as a shift in macro-economic policies from Keynesian to monetarism in both the UK and the US (Englander and Kaufman, 2004; Lazonick and O'Sullivan, 2000; Moran, 2006).

appeared to blend both Logics as, for example, he justified the use of executive share option plans using the human resources and agency principles.

The origins of Corporate Logic and Investor Logic rest in the beliefs of long dead employers. It is likely that variants of Corporate Logic and Investor Logic emerged independently in different countries and at different times in history. It is doubtful that the core beliefs of either Corporate Logic or Investor Logic were invented by any one individual and then diffused around the world. However, there are still patterns of diffusion. The history of executive remuneration is one of increasing complexity in the standard remuneration package, where additional incentive schemes, performance measures and methods of target-setting have been added over time (Milkovich and Stevens, 1999; Wells, 2011). The history of the regulation of executive remuneration is one of additional disclosure requirements and shareholder rights following public outrage over abnormal payments to executives (Cheffins, 2011; Murphy, 2011; Wells, 2011). These changes are consistent with a strengthening of Investor Logic. Further, Investor Logic has been diffused by high-profile (or large) companies, business schools, consultants, regulators and investors (Boyer, 2005; Lazonick and O'Sullivan, 2000; Spector and Spital, 2011; Williams, 2010; Zajac and Westphal, 2004). It is less clear how Corporate Logic was diffused, but directors' professional and personal networks may have been influential (Davis and Greve, 1997). In any case, future research on the historical diffusion of Corporate Logic and Investor Logic is needed.

8.3.2. Diffusion of Corporate Logic and Investor Logic in Recent Times

Chapter 5 indicates that Investor Logic became stronger in AU, NZ and the UK from the late 1980s to the late 2000s. The sequencing of events in the UK has been as follows: First, a jolt (or legitimacy crisis) would occur, where the public would be outraged over a corporate scandal (e.g. rewards for failure) or a financial crisis (e.g. Dot-com Bubble) (see Appendix E, Section E.3). Second, the Government, a regulator, a stock exchange, professional association or business association would launch an official inquiry into the causes of the jolt and possible solutions to prevent further jolts (Chambers and Weight, 2008; Solomon, 2007). They would call for public submissions and hear evidence from experts. Then they would produce an official report and/or code. Third, the Government would review the Companies Act and, possibly, issue new remuneration disclosure requirements or give shareholders further rights (e.g. non-binding vote on the remuneration report) (see Chapter 2, Section 2.2.4). This sequencing of events has repeated several times (see Appendix E, Section E.3).

Also, there has been a bandwagon effect with code production: As organisations produce codes, other organisations are encouraged to produce codes as well (see Appendix E, Section E.3). Further, code issuers review and reissue their codes on a periodic basis (e.g. every two to four years) (see Appendix E, Section E.3).

The sequencing of events in AU is comparable to that in the UK, except that there have been fewer official inquiries (see Chapter 4, Section 4.2 and Table 4.3). In terms of executive remuneration, AU disclosure requirements and shareholder rights have exceeded those of the UK. Both AU and UK companies are required to produce remuneration reports that shareholders vote to accept or reject at annual general meetings. The results of the shareholders' vote on the remuneration report were non-binding in the UK (UK's The Directors' Remuneration Report Regulations 2002).¹⁷⁸ In contrast, it changed in AU from non-binding in 2004 to binding in 2011 as directors are required to seek re-election if 25% or more of shareholders vote to reject the remuneration report in two consecutive years (AU's Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004; Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Bill 2011). The change in AU was recommended by the AU Government's Productivity Commission's (2009) inquiry on *Executive Remuneration in Australia*. As with many AU and UK official inquiries and new codes, the Productivity Commission (2009, p.iv) inquiry was motivated by a jolt: "Concerns have been raised over excessive remuneration practices, particularly as we face almost unprecedented turmoil in global financial and equity markets." Finally, there are several AU organisations that produce codes and these code issuers regularly review their codes (see Appendix E, Section E.3).

The sequencing of events in NZ is different to those in AU and the UK. There have been fewer jolts concerning the corporate governance of NZ listed companies, and consequently, fewer official inquiries and new codes. International jolts have motivated NZ code issuers, particularly the Dot-com Bubble (exemplified by the Arthur Andersen and Enron scandal) and the ASX Corporate Governance Council's (2003) code. Notably, most NZ codes were produced between 2003 and 2005 (see Chapter 4, Table 4.3). Further, remuneration disclosure requirements have not changed since the Companies Act 1993 required companies to disclose how many employees are paid over \$100,000 (see Chapter 7, Section 7.2).

¹⁷⁸ However, the UK Government has recently proposed to further increase shareholders' rights and introduce a binding vote on the remuneration report (Department of Business, Innovation and Skills, 2012).

However, NZ directors, executives, consultants and code issuers believe that NZ companies are influenced by international trends, particularly the shift from mainly fixed remuneration to mainly variable remuneration for executives (see Chapter 7). This explains why the incidence of remuneration principles in NZ corporate annual reports is much lower than in AU and UK corporate annual reports, but is still increasing over time (see Chapter 5). Also, it explains why NZ companies use the standard remuneration package for executives (see Chapter 6).

The strengthening of Investor Logic in AU, NZ and the UK between the late 1980s and late 2000s appears to be consistent with Zajac and Westphal's (2004) argument that there has been a change in beliefs among investors and regulators and this resulted in companies changing their beliefs and practices. Similarly, Point and Tyson (2006) found that companies' disclosure is copied from codes. Findings in Chapters 5 and 6 are also supportive of companies' disclosure being copied from codes. However, companies "are constituted as active players, not passive pawns" (Scott, 2008, p.178). Prior to the aforementioned changes, the beliefs of some directors and executives would have been consistent with Investor Logic and they may have seen these jolts as an opportunity to have their beliefs taken more seriously in society. Further, code issuers and companies are not independent bodies. Directors of companies are members of professional associations, which lobby code issuers, and are members of code issuers (see Appendix E, Section E.2; Jones and Pollitt, 2004). Therefore, the strengthening of Investor Logic is likely to have resulted from a political negotiation between all parties in society, where directors and investors have had the most influence.

An alternative explanation for the strengthening of Investor Logic is that this change has been by and large symbolic (e.g. Zajac and Westphal, 2004). Business is likely to defend itself and the status quo following a legitimacy crisis (Ashforth and Gibbs, 1990; Oliver, 1991). After all, directors and their advisors have been heavily involved in producing codes and, probably, making submission to code issuers as well (see Appendix E, Section E.2). For example, the UK's Greenbury (1995) committee was established by the Confederation of British Industry (a business association) and its members included 7 directors, 1 executive, 1 representative from a directors' association, 1 stockbroker and 1 representative from an investors' association. The Greenbury committee received advice from 5 remuneration consultants and submissions from 89 individuals and organisations. Notably, 63 (71%) submissions were from directors and executives. Further, all of the UK's official inquiries were chaired by

experienced directors of listed companies.¹⁷⁹ Similarly, the Australian Stock Exchange's Corporate Governance Council is comprised of 20 entities including representatives of business, investors and the professions. Further, NZ's Securities Commission's (2004a, pp.37-39) official inquiry received submissions from mainly directors and executives. However, further research is required to ascertain the extent to which directors, investors and others have influenced the production of official reports and codes.

8.4. An Institutional Logics Perspective on Remuneration Decision-Making

The remuneration committee has to make three decisions: How and how much to remunerate executives and how to report these decisions. Socio-political forces influence how these decisions are made because the remuneration committee has to reconcile the different beliefs of influential parties from inside the company (its members and executives) and from outside (investors, consultants, regulators and others) (see Chapter 3, Section 3.5; Chapter 7). The remuneration committee and influential parties use remuneration principles to justify their recommendations on what decisions should be made (see Chapters 5, 6 and 7). Further, while the remuneration committee and influential parties perceive their recommendations to be rational, their recommendations are only rational to those who share their beliefs. Put differently, believers in Corporate Logic will be perplexed by the insistence of believers in Investor Logic on using performance-based remuneration; whereas believers in Investor Logic will perceive believers in Corporate Logic as greedy and opportunistic as they emphasise the competitiveness of remuneration (see Chapter 7). As the distribution of belief in Corporate Logic and/or Investor Logic is not one-sided, remuneration decision-making is analogous to a political negotiation and remuneration decisions represent compromises and temporary truces. This process of remuneration decision-making is discussed in greater detail next.

¹⁷⁹ In the UK, the official inquiries have been chaired by experienced directors of listed companies. These include: *the Committee on the Financial Aspects of Corporate Governance* (1991-1992), chaired by Sir Adrian Cadbury and established by the London Stock Exchange and the accountancy profession; *A Study Group Chaired by Sir Richard Greenbury* (1995), chaired by Sir Richard (Executive Chairman, Marks and Spencer) and established by the Confederation of British Industry (an association of business that is controlled by senior executives); *Committee on Corporate Governance* (1995-1998), chaired by Ronnie Hampel (Chairman, Imperial Chemical Industries) and established by the Financial Reporting Council; *Non-executive Directors Review* (2002-2003), chaired by Derek Higgs (Director, British Land) and established by the UK Government; and *The Walker Review* (2009), chaired by Sir David Walker (Vice Chairman, Legal and General Group) and established by the UK Prime Minister.

8.4.1. Competitive and Institutional Pressures

DiMaggio and Powell (1983) argue that there are competitive, coercive, normative and mimetic pressures that compel organisations to become increasingly similar over time. Prior qualitative research on remuneration committees (e.g. Hermanson et al., 2011; Main et al., 2008) and Chapters 5, 6 and 7 indicate that there has been both an isomorphism of discourse and practice. There is a standard remuneration package for executives, justified with multiple remuneration principles, which is recommended by most code issuers and practiced by most companies (see Chapters 3, 5, 6 and 7). However, while remuneration committees are influenced by these pressures, they are also capable of responding to them (Hermanson et al., 2011; Main et al., 2008). Next, how these pressures influence remuneration committees and how they respond is considered.

Competitive pressure in the forms of the stock market, the market for corporate control and the managerial labour market influence remuneration committees. First, the stock market influences how remuneration committees design their long-term incentive schemes because they believe that shareholder value maximisation is the corporate objective and share prices tell them how well they are achieving that corporate objective (see Chapter 7; Hermanson et al., 2011; Lok, 2010). Analysts and the media, as information suppliers to the stock market, also influence remuneration committees (see Chapter 7; Hermanson et al., 2011). As shown in Chapter 7, some NZ directors are deeply concerned that their remuneration decisions are perceived as legitimate by the stock market, whereas others believe that investors should sell their shares if investors think that executives are overpaid. Consistent with Corporate Logic, NZ directors believed that investors should not impinge on their professional autonomy to make remuneration decisions. Consistent with Investor Logic, NZ executives felt pressured by the stock market to meet earnings targets in the short-term. This is consistent with Pepper et al.'s (2012) findings that long-term incentive schemes are not effective because UK executives heavily discount the future. Counterbalancing this short-term focus, NZ directors are acutely focused on long-term shareholder value.

Second, the market for corporate control may influence the time horizon of remuneration committees. Dalton et al. (2007, p.33) note that “the primary legacy of the market for corporate control is, perhaps, executives’ focused emphasis on increasing firms’ stock price...” Prior qualitative research and the present study have not examined the influence of the market of corporate control on remuneration committees. However, Chapter 6’s findings

are suggestive of a shortening of the vesting period of long-term incentives from 5-10 years in the late 1980s to early 1990s to 3-5 years in the late 2000s. Similarly, NZ directors and executives believed that the long-term is 3-5 years (not reported in Chapter 7). However, a vesting period of 3 years may have become the norm in the UK in the 1980s because of normative pressure from UK's Association for British Insurers and due to tax rules on executive share option schemes (Bender, 2004). Further research is required to ascertain if remuneration committees have reduced the length of the vesting period as their belief in Investor Logic has strengthened.

Third, the managerial labour market has a strong influence on remuneration committees. After all, the human resources and market principles are widely diffused (see Chapter 5). Directors believe that if executive remuneration is not competitive (i.e. at the median or above relative to a comparator group), then they will experience difficulty recruiting and retaining talented executives (see Chapters 6 and 7; Bender, 2004; Hermanson et al., 2011; Ogden and Watson, 2011). Empirical evidence indicates that executives are paid comparably to their peers (Ezzamel and Watson, 2002; Fulmer, 2009). However, the managerial labour market may not be efficient because executives do not regularly change jobs. Directors have recognised that the managerial labour market is not efficient (Greenbury, 1995; Perkins and Hendry, 2005). Moreover, competitive pressure from the managerial labour market exerted on remuneration committees may be a myth. Directors have rarely reported any actual recruitment and retention problems, but they do believe that they will experience problems if executive remuneration is not competitive (see Chapter 7; Ogden and Watson, 2011). In this respect, the managerial labour market may be a normative pressure, not a competitive pressure because belief in the human resources and market principles has become a rationalised myth.

Coercive pressure appears to influence how companies report remuneration decisions in their annual reports. In an exploratory study of 23 European companies, Point and Tyson (2006) showed that the phraseology of companies' remuneration policies was copied from codes. They concluded that codes exert pressure on companies. Chapter 5's findings are supportive of this argument. However, it may be that code issuers' recommendations came from companies. This is quite likely as directors are members of code issuers and make submissions to code issuers (see Section 8.3). Further, prior qualitative research on remuneration committees, that has had an institutional theory lens, has not found coercive

pressure to be strong (Hermanson et al., 2011; Main et al., 2008). However, it may be that prior research has not explicitly studied how codes influence remuneration committees. Nonetheless, codes may be indirectly influential. For example, Lok (2010) found that UK institutional investors were concerned if companies did not comply with the UK's *Combined Code*, particularly if firm performance was declining. On the other hand, NZ directors do not believe that regulators and code issuers have a significant influence on how they made remuneration decisions (see Chapter 7). On the whole, coercive pressure only influences how much companies have to disclose on executive remuneration, not how remuneration committees make remuneration decisions.

Normative pressure influences how remuneration committees make decisions in a general sense. Remuneration committees want to make decisions that are perceived by investors and the media as normal, not abnormal (see Chapter 7, Hermanson et al., 2011; Main et al., 2008; Perkins and Hendry, 2005). Norms are formed and diffused through codes, consultants' networks, directors' (personal and professional) networks and other professional networks (e.g. accountants and lawyers). Codes may reinforce existing norms, but they do not appear to change existing norms because their recommendations are principles-based and non-specific (see Chapters 6 and 7; Ogden and Watson, 2008). Consultants are influential, but reinforce existing norms because their data and advice is based on what most companies are doing (see Chapter 7; Bender, 2011; Hermanson, et al., 2011). Certainly, consultants reinforce the human resources and market principles (see Chapter 7; Ogden and Watson, 2011).¹⁸⁰ Directors' networks are also influential because directors use their networks to check that their decisions are consistent with the beliefs and decisions of other directors (see Chapter 7; Hermanson et al., 2011).¹⁸¹ It may be that norms within the professions influence what performance measures are selected (e.g. accountants as advisors) and how employment contracts are structured (e.g. lawyers as advisors), although prior research and the present study provides no evidence of such an influence.

Mimetic pressure influences how remuneration committees make and report decisions because of the homogeneity in the processes they follow to make decisions, the decisions they

¹⁸⁰ One NZ consultant believed that there are norms (and beliefs and values) embedded in the methods (e.g. job evaluation systems) that consultants use. There is scant research on the use of job evaluation systems. Specifically, there is no research on how job evaluation systems influence the structure and level of executive remuneration. This is an opportunity for future research.

¹⁸¹ In this respect, the directors' network is also a form of mimetic pressure.

make and the remuneration disclosure produced (see Chapters 5, 6 and 7; Bender, 2011; Hermanson et al., 2011; Main et al., 2008; Point and Tyson, 2006). The case for mimetic pressure is strengthened by the wide diffusion of the human resources and market principles (see Chapter 5). NZ directors confirmed that they are influenced by their competitors' remuneration decisions (see Chapter 7). Also, remuneration consultants are a likely source of mimetic pressure (see Chapter 7; Bender, 2011). However, this contradicts Ogden and Watson (2008), who found no evidence of mimetic pressure influence on how remuneration committees designed long-term incentive schemes. Further, Main et al. (2008) pointed out that it is near-impossible to distinguish between mimetic pressure and social learning. From the NZ directors' perspective, making and reporting remuneration decisions is part imitation and part learning (see Chapter 7). Learning occurs as NZ directors would collect intelligence on their competitors, evaluate the information and then adopt those practices that are perceived to be beneficial and modify those practices if necessary (not reported in Chapter 7).

Competitive and institutional pressures influence how remuneration committees make and report remuneration decisions to varying degrees (see above). However, the extent to which each party behind these pressures (e.g. consultants, investors, media, etc) have beliefs that are consistent with Corporate Logic and/or Investor Logic is not known. Investors' beliefs are probably consistent with Investor Logic (Hendry et al., 2006; Lok, 2010), although retail investors (mums and dads) may be more trusting of executives (Corporate Logic) and ethical investors, according to Solomon (2007), want executives to maximise stakeholder value (Stakeholder Logic or Political Logic). Similarly, there may be a range of beliefs held in the media because the media focuses on relationships between CEO pay and firm performance and CEO pay and the average wage for employees (see Chapter 7; Lok, 2010). Consultants may (appear to) believe in both Corporate Logic and Investor Logic because they want to sell data on the market rate to companies and sell advice to companies on how to design their incentive schemes (see Chapter 7; Bender, 2011; Ogden and Watson, 2011). Therefore, future research is required to understand the distribution of beliefs among these parties and the relative strength of the different pressures.

8.4.2. Making Remuneration Decisions

At the organisational level, the process by which remuneration committees make decisions is driven by the desire to maximise shareholder value both in the near and distant future (i.e. efficiency), as well as the desire to have their decisions perceived to be legitimate by

shareholders, executives, other directors and, to a lesser extent, non-shareholding stakeholders (i.e. legitimacy). Competitive and institutional pressures influence what is perceived as efficient and legitimate because people's beliefs (or preferences) are embedded, not autonomous (Cyert and March, 1992; March and Simon, 1993). However, there is a distribution of beliefs. Within this process, there is a tension between efficiency and legitimacy because directors and others have different beliefs about what is efficient. Put differently, believers in Corporate Logic and Investor Logic have different perceptions of what is the appropriate means to achieve shareholder value maximisation (see Chapters 3, 6 and 7). Further, remuneration committees cannot resolve these tensions because institutionalised beliefs are not easily changed and due to their human limitations. In terms of the latter, Main et al. (2008, p.234) observe:

“It is necessary, therefore, to recognize the remuneration committee's cognitive limitations in the face of finite information, bounded computational capacity and restricted time constraints.”

At the organisational field level, the tensions have been resolved.¹⁸² There is a standard remuneration package for executives (see Chapters 3 and 6). Both Corporate Logic and Investor Logic can co-exist in the discourse on executive remuneration because almost all executive remuneration practices can be justified with either Corporate Logic or Investor Logic. Believers in Corporate Logic are satisfied with executives receiving short- and long-term incentives because they perceive these incentives to be necessary to attract and retain talented executives and to pay executives at the market rate (see Chapter 7; Ogden and Watson, 2011). Believers in Investor Logic are satisfied with executives receiving short- and long-term incentives because they perceive these incentives to be necessary to motivate (i.e. control and direct) executives and align executives' interests with those of shareholders. Further, while public outrage over rewards for failure, corporate scandals and financial crises have resulted in increased remuneration disclosure requirements and shareholder rights, it has not altered the process by which executive remuneration is determined (see Section 8.3). If anything, public outrage has resulted in the entrenchment of the remuneration principles, the standard remuneration package and the process for determining remuneration (e.g. use of consultants and imitating competitors).

¹⁸² An organisational field includes a group of organisations (e.g. listed companies) and parties that are interested in the affairs of one or more organisations in the group (e.g. customers, investors, regulators, suppliers, etc) (Scott, 2008).

However, one question remains: Why is there limited substantive variation in executive remuneration practices that companies adopt? Put differently, why is there a standard remuneration package, when directors and others have a range of beliefs? These questions have been partially addressed in the preceding discussion. Competitive and institutional pressures compel remuneration committees to follow the same processes and make comparable decisions. There are several other reasons. First, remuneration decisions are path dependent, i.e. directors do not revisit prior decisions (Main et al., 2008). As new incentive schemes are ‘invented’, they are added to existing incentive schemes.¹⁸³ This has contributed to the standard remuneration package becoming more complex over time. However, this has been a case of change in form, not substance because there are few companies that do not use performance-based remuneration (see Chapter 6).

Second, confirmation bias may result in directors and others erroneously validating their beliefs. Confirmation bias occurs when people accept facts that support their beliefs, while dismissing facts that do not support their beliefs (for a review see Nickerson, 1998). Directors who believe in Investor Logic may dismiss cases where performance-based remuneration does not work due to poor design or uncontrollable factors (e.g. Global Financial Crisis). For example, one NZ director commented, “[M]ost [researchers]... *are pretty agnostic about the benefit of remuneration at-risk. In spite of that, most companies do it. In spite of that, I’m keen on it. And the reason is it is very plausible.*”¹⁸⁴ Similarly, directors who believe in Corporate Logic may attribute recruitment and retention problems to an uncompetitive remuneration package, rather than other aspects of the job or the company. The challenge of the job was a significant motivator for most NZ executives (see Chapter 7). Further, while some recruitment problems related to the level of remuneration, most NZ directors did not believe that recruitment and retention due to uncompetitive remuneration was a significant problem (see Chapter 7). Further research on how confirmation bias affects remuneration committees’ decision making is required.

¹⁸³ Chapter 6 shows that the executive remuneration practices have become more complex over time. However, Chapter 6’s findings are qualitative, not quantitative. Further quantitative research is required to validate this inference. For example, Greenbury (1995) criticised executive share option schemes and encouraged companies to consider adopting restricted share schemes that are conditional on meeting targets. An interesting question is: Did companies replace their executive share option schemes with restricted share schemes or did they simply add restricted share schemes?

¹⁸⁴ Quotes from interviewees are presented in italics.

Third and most importantly, the institutional identities of the non-executive director, the board and the remuneration committee constrain directors' abilities to make remuneration decisions that do not fit with these identities. Lok (2010, p.1308) argues, "institutional logics not only direct what social actors want (interests) and how they are to proceed (guidelines for action), but also who or what they are (identity)." However, institutional identity as a concept has rarely been studied in prior research on corporate governance (cf. Lok, 2010).¹⁸⁵ Belief in shareholder value maximisation and performance-based remuneration is all but required for the non-executive director (see Chapter 7; Lok, 2010; Pye, 2000). Also, codes portray the non-executive director as both a 'judge' and 'problem-solver' (not reported in Chapter 6). For example, the UK's Financial Reporting Council (2006, p.3) states, "...non-executive directors should constructively challenge and help develop proposals on strategy... [and] scrutinise the performance of management..." As a problem-solver, the remuneration committee has a limited toolkit (e.g. short- and long-term incentive schemes). Even if the remuneration committee does not believe that performance-based remuneration will alter executive behaviour, their institutional identity requires that they use it. Further, rejecting performance-based remuneration is akin to the remuneration committee rejecting its identity and ability to solve problems. Further research is required to generate additional insight into how institutional identities constrain and enable directors, executives and others. As Lok (2010) notes, executives can manage (or rework) their identities. Directors may also be able to manage their identities (e.g. justifying incentive schemes using the human resources principle).

8.4.3. Reporting Remuneration Decisions

Corporate annual reports are prepared by directors, executives, other employees and, possibly, public relations consultants (see Chapter 7; Milner, 2009). Prior qualitative research on remuneration committees has not investigated how remuneration disclosure decisions are

¹⁸⁵ Prior research on corporate governance that has drawn on institutional theory has taken a macro perspective by studying how institutional pressures influence remuneration committees (e.g. Main et al., 2008). However, a micro perspective can inform whether institutional identities are imposed upon individuals when they work in organisations (Glynn, 2008; Lok, 2010). Further, the concept of institutional identity is comparable to Cyert and March's (1992) logic of appropriateness or March and Simon's (1993) rule-based action. Cyert and March (1992, p.231) explain how the logic of appropriateness (or an institutional identity) can constrain decision-making: "[A] decision maker asks: (1) What kind of situation is this? (2) What kind of person am I? (3) What is appropriate for a person such as I in a situation such as this? Such rule-following is neither wilful nor consequential in the normal sense. It does not stem from the pursuit of interests and the calculation of future consequences of current choices. Rather, it comes from matching a changing (and often ambiguous) set of contingent rules to a changing (and often ambiguous) set of situations."

made.¹⁸⁶ Nevertheless, Chapter 7 showed that NZ directors and executives portrayed the reporting of remuneration decisions as an accounting of the facts (except for one executive, see Chapter 7, Section 7.6.8). That is, remuneration disclosure is believed to be incremental information, not impression management (Merkel-Davies and Brennan, 2007). However, they could still manage their remuneration disclosure by choosing to disclose the minimum or greater than the minimum. Most believed that minimum disclosure was sufficient. There are many reasons why companies may choose to disclose the minimum. Most significantly, this is a least cost and easiest choice. From an institutional logics perspective, companies may choose to report the minimum because their culture does not fit with their societal expectations. In other words, the legitimate institutional logic in society may differ from the institutional logic embedded in any given company. Disclosing the minimum may enable companies to hide the fact that their culture does not fit. However, further research is required to investigate this possibility.

Remuneration disclosures are part-factual and part-rhetorical. In particular, Chapter 6 showed that the remuneration principles are truisms that cannot be easily refuted. It is unlikely that investors, regulators and others will argue that companies should not attract and retain talented executives or that companies should not remunerate executives for their individual contributions to firm performance. This is illustrated in the National Australia Bank's (AU, 1998, p.72) remuneration policy for senior executives:

“The Company operates in a variety of different countries... in which we are competing for top executive talent. Senior executives have a direct impact on the performance of the company and its future prospects and the Board believes it is imperative that remuneration levels are set to be among the leaders of major corporations... to ensure that the bank is able to attract and retain the best available executive talent.”

Arguing against the remuneration principles would constitute a rejection of the institutional identities of directors and executives as ‘problem-solvers’, who are capable of maximising shareholder value. This is unlikely given that both Corporate Logic and Investor Logic have become the institutionalised discourse on executive remuneration (see Chapters 5, 6 and 7; Green et al., 2008; Lok, 2010; Zajac and Westphal, 2004).

¹⁸⁶ Note that NZ mandatory disclosure requirements are minimal relative to AU or the UK. Hence, NZ directors and executives did not have much to say about how remuneration disclosures were prepared. Much of their comments focused how the accuracy of the numbers was validated.

8.4.4. Implications for Corporate Logic and Investor Logic

With respect to Australia's and the UK's remuneration regulations, one NZ director believed that, "[M]aybe the whole thing is going mad a bit..." From an institutional logics perspective, the standard remuneration package for executives and the process of making remuneration decisions also appears to be mad or insane. Corporate Logic implies that boards (and remuneration committees) should hire executives that are stewards, pay them competitively and then replace them if their performance is below expectations. For believers in Investor Logic (e.g. Bebchuk and Fried, 2004; Jensen et al., 2005), such an approach is mad because they believe that executives and employees are opportunistic and extrinsically motivated. However, Williams (1923) long ago pointed out that people with these beliefs often do not believe that it applies to them. Empirical evidence from the management and psychology literature indicates that people behave like agents and stewards as well as in other ways (Frey and Osterloh, 2002; Furnham, 2005; Hernandez, 2012). For example, in experimental research, Fong and Tosi (2007) found that irrespective of whether monetary incentives were offered in a task, high conscientiousness participants exhibited very high levels of effort and task performance. Therefore, boards should focus their efforts on identifying executives that are stewards or exhibit high conscientiousness, rather than hiring charismatic but narcissistic executives (Khurana, 2002).

On the other hand, Investor Logic implies that boards (and remuneration committees) should hire executives and only pay them grandly if firm performance improves. The standard remuneration package for executives appears to be consistent with Investor Logic. However, it is not because of the underlying but unreasonable assumption that executives are capable of choosing the course of action that will maximise their short- and long-term incentive payments. The rationality of executives is bounded (March and Simon, 1993). For example, the UK's CGU (1998) had two short-term incentive schemes and four long-term incentives schemes, which presented executives with an incredibly complex optimisation problem (see Chapter 6, Section 6.3.3). Faced with such complexity, executives are likely to heavily discount the value of long-term incentives and focus on the short-term (Pepper et al., 2012). Therefore, the standard remuneration package should be simplified. Base salaries plus a portion of profit is sufficient (Mill, 1848; Smith, 1776) as long as directors, who are independent, monitor executives diligently and the company's accounts are audited.

Directors can simply replace executives if they focus too heavily on the short-term at the expense of the long-term.¹⁸⁷

In 2007, no large listed companies in AU, NZ and the UK had executive remuneration practices that were as simple as described above (see Chapter 6). The standard remuneration package and the processes that reproduce it are engrained in the thinking of directors and executives (see Chapter 7; Bender, 2004, 2007; Hermanson et al., 2011; Main et al., 2008; Ogden and Watson, 2011). They cannot conceive of any alternatives. This illustrates that there is a distribution of beliefs within and between companies and other parties (e.g. code issuers), but those beliefs are consistent with Corporate Logic and Investor Logic. Further, the resulting complexity is a product of political negotiations between directors, executives, investors and others as well as institutional pressures, institutional identities and path dependence (see discussed above). While Investor Logic appears to be stronger than Corporate Logic, Corporate Logic may be stronger because the outcome of this complexity may be executives being paid comparably to their peers irrespective of firm performance (see Chapter 7; Ogden and Watson, 2011). However, a definitive conclusion is not possible because the distribution of beliefs among directors, executives, investors and others is not known. Further research on the distribution of beliefs is required to gain additional insight into the process of remuneration decision-making.

8.5. Institutional Positions

Corporate Logic and Investor Logic can be substantive or symbolic in that an organisation's public discourse may be coupled or decoupled from their private discourse (Zajac and Westphal, 2004).¹⁸⁸ An organisation is most likely to decouple its public discourse from its private discourse when its culture or collective belief-set does not fit with societal expectations (Meyer and Rowan, 1977; Scott, 2008). This means an organisation's conformance to societal expectations is symbolic, not substantive. An organisation may

¹⁸⁷ This assumes that the labour market for non-executive directors is efficient and that the appointment of non-executive directors is controlled by shareholders, not executives (Fama, 1980; cf. Bebchuk and Fried, 2004). It also assumes that the tenure of non-executives directors is longer than that of executives. The reasonableness of these assumptions can be easily criticised because of the perennial problem of 'who watches the watcher?' Any additional monitoring and incentive mechanisms that are introduced may resolve one problem, but will undoubtedly create other problems. Long ago, McGregor (1960, p.9) argued that, "the ingenuity of the average worker is sufficient to outwit *any* system of controls devised by management." This equally applies to the shareholder-director and director-executive relationships. There is no one best solution.

¹⁸⁸ Private discourse is hidden from public view. For example, board meetings are closed to the general public (including shareholders).

choose symbolic conformance, rather than opposing societal expectations because the latter may result in the organisation being sanctioned or punished (Scott, 2008). The present study did not investigate substantive and symbolic conformance in any depth, but Chapters 6 and 7 did reveal possible cases of symbolic conformance. As argued in Section 8.4, directors may use short- and long-term incentive schemes to increase the level of executive remuneration (substantive), while appearing to satisfy investors' desires for executive remuneration to be sensitive to firm performance (symbolic). This section considers the legitimacy of Corporate Logic and Investor Logic as well as how and why companies may use symbolic conformance to appear legitimate.

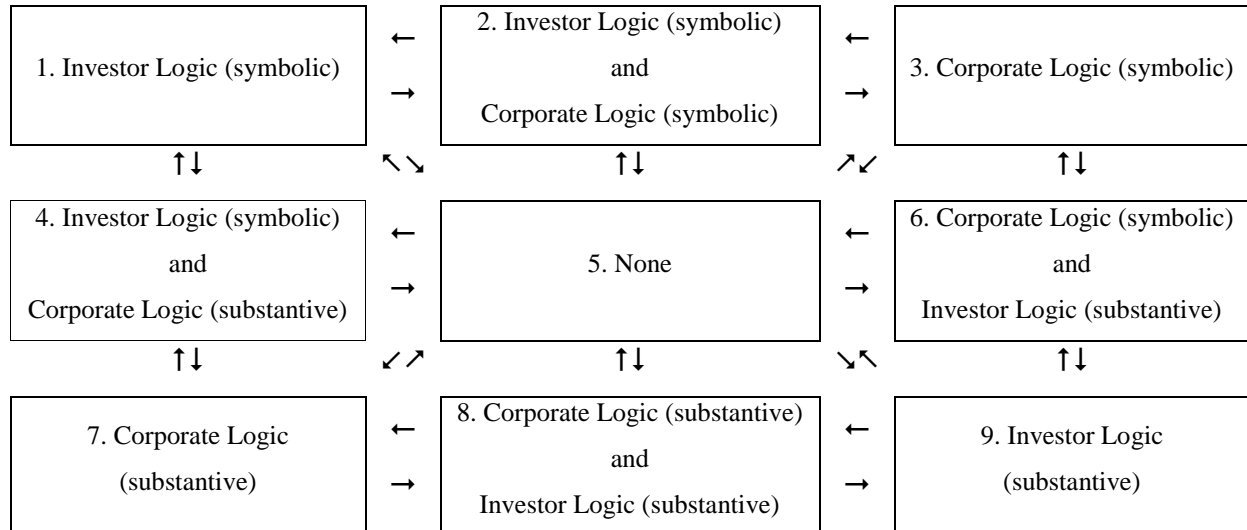
An institutional logic may be embedded in an organisation's public and private discourse (substantive conformance) or only embedded in an organisation's public discourse (symbolic conformance). Given that there are multiple institutional logics in any organisational field (Friedland and Alford, 1991; Thornton and Ocasio, 2008), an organisation's discourse can be characterised as having one institutional logic that is substantive and another that is symbolic. This is called an organisation's institutional position.¹⁸⁹ Essentially, an institutional position describes the relationship between the public and private discourse of an organisation (e.g. code issuer, company, investor, etc), where substantive means coupled and symbolic means decoupled. Any institutional position may be legitimate or illegitimate. Typically, an organisation will engage in symbolic conformance to preserve its private discourse which it perceives as more efficient than the alternative discourse which has acquired more legitimacy in society (Boxenbaum and Jonsson, 2008; Scott, 2008). This implies that an organisation can respond strategically to institutional pressures (Oliver, 1991; Scott, 2008; Suchman, 1995). However, an organisation may engage in symbolic conformance because there is no institutional logic embedded in its private discourse. The internal dynamics of an organisation may be chaotic or political in nature, and symbolic conformance is deployed to hide the chaos or internal politics from public view.¹⁹⁰

¹⁸⁹ An institutional position is original concept that has not been discussed in the literature on institutional theory.

¹⁹⁰ Typically, neo-institutional sociologists conceptualise organisations (and organisational actors) as intentional (see Greenwood et al.'s, 2008, *The Sage Handbook of Organizational Institutionalism*). That is, organisational action has purpose and meaning to those within and outside of the organisation. Organisational actors act as a collective, i.e. as an organisation, and organisations are motivated by either efficiency and/or legitimacy (DiMaggio and Powell, 1983; Scott, 2008). However, this is an oversimplification of organisational life because organisational decision-making can be chaotic (or lacking coherence and intentionality) or political in nature (Cohen et al., 1972; Miller et al., 1999).

Figure 8.1 outlines the nine possible institutional positions that an organisation can occupy which arise from Investor Logic and Corporate Logic being symbolic and/or substantive, or neither Logic being embedded in an organisation's discourse.¹⁹¹ Positions 7, 8 and 9 imply that an organisation's public and private discourse are tightly coupled. Positions 4 and 6 imply that an organisation's culture does not fit with societal expectations, and either Corporate Logic or Investor Logic becomes symbolic in order to protect its legitimacy and preserve its private discourse. Position 5 implies that an organisation has no culture, where decision-making may be highly chaotic or political in nature. This position may be maintained if there is no institutional logic that is legitimate in society. Positions 1, 2 and 3 are comparable to Position 5, except there is a degree of intentionality because Corporate Logic and/or Investor Logic are symbolic. As neither Corporate Logic nor Investor Logic is substantive, the organisation may be attempting to deliberately mislead society. Thus, positions 1, 2 and 3 are consistent with directors and executives acting in their self-interest at the expense of shareholders and others, i.e. excessive managerial power (Bebchuk and Fried, 2004).

Figure 8.1: Institutional Positions



Determining which institutional positions are legitimate or which institutional positions organisations occupy has not been studied. However, some inferences can be made. Given that both Corporate Logic and Investor Logic are embedded in most codes from AU, NZ, the UK and the US (see Chapter 5; Crombie et al., 2010), position 8 is legitimate. However,

¹⁹¹ There may be degrees of coupling or decoupling (Boxenbaum and Jonsson, 2008). This point is not discussed here. However, it does imply that there is a continuum between each opposing pair of institutional positions (e.g. from position 1 to 3, from position 1 to 9, from position 1 to 7, etc).

competitive and institutional pressures compel companies to adopt Investor Logic (see Section 8.4; Zajac and Westphal, 2004). This implies that positions 6 and 9 are also legitimate. Companies face sanctions if they do not appear to occupy positions 6, 8 and 9. Investors can sanction companies by suppressing their share prices, not re-electing their directors or voting against remuneration reports. Regulators and some code issuers (e.g. stock exchanges) can sanction companies by fining or delisting companies that do not comply with laws or codes. However, companies may be able to defend against these sanctions. For example, Conyon and Sadler (2010) found that UK companies did not alter the level or design of the CEO's remuneration package after a significant portion of shareholders had voted against the remuneration report. Similarly, Arcot et al. (2010) found that UK companies explanations for non-compliance with the *Combined Code* to be lacking substance.

Chapter 5 shows that both Corporate Logic and Investor Logic are legitimate discourses. However, given that Corporate Logic only is not embedded in any codes and almost any corporate annual reports, Corporate Logic may only be legitimate if it is joined with Investor Logic (see Chapter 5, Tables 5.3 and 5.9). Therefore, companies can occupy positions 1, 2, 3, 4, 6, 8 and 9, but companies that occupy positions 1, 2, 3, 4 risk being sanctioned if society (e.g. investors, regulators and code issuers) discovers that Investor Logic is symbolic. Indeed, AU, NZ and UK companies have occupied a range of institutional positions (see Chapter 6, Section 6.3). Further, positions 5 and 7 appear to be illegitimate because performance-based remuneration is an institutionalised part of the standard remuneration package for executives (see Chapters 3 and 6). As shown in Chapter 7, most NZ directors and executives cannot perceive of alternative executive remuneration practices. Also, one NZ director suggested that he was excluded from joining remuneration committees because his beliefs were different to most other directors (i.e. he did not believe that performance-based remuneration was necessary).

Included in Chapter 6 are two examples of changing institutional positions. First, Associated British Foods (UK, 1998, 2007) transitioned from position 7 to 8. In 2000, it adopted performance-based remuneration despite having an organisational culture that was consistent with executives as stewards. However, it may have transitioned from position 7 to 5, if the remuneration committee intends to pay executives at the market rate irrespective of firm

performance.¹⁹² Second, Brierley Investments (NZ) transitioned from either position 1 or 7 to 9. Prior to 1998, Brierley Investments had become a conglomerate, focused on maximising dividends to shareholders (position 7). However, the former CEO's high severance payment and the chairman's statement were indicative of managerial entrenchment and opportunism prior to 1998 (position 1).¹⁹³ The transition to position 9 was apparent because Investor Logic only was deeply embedded in the chairman's statement. As a postscript, Brierley Investments may have further transitioned to position 4 or 7. By 2002, the major shareholder had taken control of the company, renaming it to BIL Investments and appointing himself executive chairman. Further, comparing BIL Investment's 2003 and 2004 remuneration policies reveals that pay-for-performance principle was dropped while the human resources and market principles remained.¹⁹⁴

As aforementioned, companies risk being sanctioned if society discovers that their discourse is symbolic. The sanctions may be particularly acute if companies are discovered to occupy positions 1, 2 or 3. While no instances of corporate malfeasance were documented in the present study, the case of Enron and its collapse is an example of a company occupying position 1 and then being revealed as such.¹⁹⁵ Essentially, Investor Logic was embedded in Enron's discourse, but its discourse was symbolic because executives acted opportunistically and at the expense of shareholders, employees and others (McLean and Elkind, 2003; Rapoport and Dharan, 2004).

¹⁹² This statement should be qualified. Corporate Logic does not imply that incompetent or opportunistic executives should be paid at the market rate despite a persistent decline in firm performance. Instead, Corporate Logic implies that when firm performance is declining, executives will still be paid at the market rate as long as they are deemed competent and acting in the best interests of the company and its shareholders. Executives will be replaced if they are not.

¹⁹³ In 1997, Paul Collins, CEO of BIL, received NZ\$1.3 million in remuneration. Following his dismissal in 1998, he received NZ\$5.4 million in remuneration. Thus, his severance payment was approximately NZ\$4 million, which is one of the highest in NZ corporate history (Fox, 12 July 2003). This severance payment is questionable given that under Collins' leadership BIL's share price declined dramatically.

¹⁹⁴ BIL Investments' (NZ, 2003, p.59) remuneration policy was as follows: "In reviewing and determining the remuneration packages of the Chief Executive Officer and the senior executives, the Committee considers their responsibilities, skills, expertise and contribution to the Group's performance and whether such remuneration is competitive and sufficient to ensure that the Group is able to attract and retain executive talent. The Company advocates a performance-based remuneration system that is flexible and responsive to the market, Group's and individual employee's performance." The last sentence of this remuneration policy was removed from the 2004 remuneration policy (BIL Investments, NZ, 2004, p.59). Thus, the pay-for-performance principle was deemphasised.

¹⁹⁵ Note: Position 1 indicates that a company is portraying to society that it is occupying position 9.

Enron's (2000, p.13) executive remuneration policy was similar to those of other companies in the sample of the present study, although it had a stronger emphasis on the pay-for-performance principle (Investor Logic) than others:

“The basic philosophy behind executive compensation at Enron is to reward executive performance that creates long-term shareholder value. This pay-for-performance tenet is embedded in each aspect of an executive's total compensation package... In order to assure that an executive's compensation is tied to performance, more dollars of total compensation are placed at risk, tied to Enron absolute performance and performance relative to the S&P 500 group of companies.”

Enron's financial and narrative reporting was fictitious and ideological to say the least (Craig and Amernic, 2004; Rapoport and Dharan, 2004). Also, its organisational culture has been characterised as totalitarian and cult-like (Tourish and Vatcha, 2005). It appears that Enron's remuneration policies and practices are consistent with Investor Logic, yet they enabled executives to enrich themselves at the expense of shareholders. For instance, “[Lou] Pai [a senior executive]... sold over \$250 million worth of Enron stock – more than anybody else at the company” (McLean and Elkind, 2003, p.334).

Further, The Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, United States Senate (2002, p.3) investigated *The Role of the Board of Directors in Enron's Collapse* and concluded:

“The Enron Board of Directors approved excessive compensation for company executives, failed to monitor the cumulative cash drain caused by Enron's 2000 annual bonus and performance unit plans, and failed to monitor or halt abuse by Board Chairman and Chief Executive Officer Kenneth Lay of a company-financed, multi-million dollar, personal credit line.”

The bankruptcy of Enron and conviction of the Kenneth Lay, chairman, and Jeffrey Skilling, CEO, illustrates the sanctions that individuals and companies can receive for occupying an illegitimate institutional position (Powell, 2007).

Given the exploratory nature of the present study, it is not known how AU, NZ and UK companies are distributed across the institutional positions and how the distribution has changed over time. Chapters 5 and 6 are suggestive of companies being distributed across a range of positions, although positions 5 and 7 would appear to be rarely occupied. The strengthening of Investor Logic (see Sections 8.2, 8.3 and 8.4) is indicative of a shift in the distribution towards positions 6, 8 and 9. Similarly, it is not known what institutional

positions are legitimate in AU, NZ and the UK and whether the institutional positions that are legitimate have changed over time. Zajac and Westphal (2004) argue that there has been a transition from Corporate Logic (position 7) to Investor Logic (position 9) in terms of what is legitimate in the eyes of investors. Such a transition is partially supported by the present study's analysis of code issuers' recommendations (see Chapters 5 and 6). But it is possible that multiple positions are legitimate. Nonetheless, the concept of the institutional position that has been introduced should provide a fruitful avenue for future research on Corporate Logic and Investor Logic as well as other possible institutional logics.

8.6. Conclusion

Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration. Despite being opposites, there has not been an institutional battle between Corporate Logic and Investor Logic in recent times. Instead, both Logics have been reinforced in the discourse as various parties have sought to solve the perceived problem of executives being overpaid and defend themselves against the charge. While remuneration committees are constrained by competitive and institutional pressures, the various remuneration principles (e.g. the agency and human resources principles) afford directors sufficient flexibility to justify almost any remuneration practice. In this institutional setting, the standard remuneration package is an outcome of political negotiation between parties, rather than the merging of Corporate Logic and Investor Logic. Both Logics imply that executive remuneration practices should be simple, but the standard remuneration practice is anything but simple. Certainly, executives are not capable of responding in a calculative manner to the vast array of incentives found in the standard remuneration package. Instead, both Logics are embedded in the discourse because people have different beliefs about what is efficient and legitimate, and people respond strategically to other people's beliefs. Overall, the chapter highlights many opportunities for research from an institutional logics perspective.

Chapter 9: Conclusion

9.1. Introduction

This PhD research's main thesis is: Ideas matter. How people make decisions, justify their decisions to others, interpret how other people react to their decisions and interpret other people's decisions is dependent on the ideas that are ingrained in their cognitive faculties. However, ideas are not objective or part of physical reality. Instead, ideas have inter-subjective meaning based on people's shared but negotiated understanding of social reality. The present study investigated a specific set of ideas known as institutional logics of corporate governance, within a particular setting, the discourse on executive remuneration in AU, NZ and the UK. Institutional logics of corporate governance are highly-ordered sets of ideas – beliefs, norms, rules and values – that form a coalescing discourse on how corporate governance should be interpreted, justified and practiced. At the organisational level, how institutional logics both constrain and enable how remuneration decisions are made and reported was studied. At the organisational field level, how multiple institutional logics are able to exist in any particular setting; that is, whether and how institutional logics compete or co-exist was examined.

The chapter is organised as follows. Section 2 summarises the main findings from Chapters 2 to 8 and discusses how these findings contribute to knowledge. Substantial insight has been generated into the discourse on executive remuneration from an institutional logics perspective. How this insight informs and advances institutional theory is discussed in Section 3. The implications of the findings for practice are considered in Section 4, but caution is necessary in order to avoid over-generalisation. There is not one best set of executive remuneration principles, practices and processes. Many future research opportunities have been mentioned throughout this thesis. Section 5 outlines how researchers may further investigate the discourse on executive remuneration from an institutional logics perspective. A final comment is offered in Section 6.

9.2. Main Findings and Contribution to Knowledge

An original and novel framework was developed that both conceptualised and facilitated the study of institutional logics of corporate governance (see Chapter 2, Table 2.3). Derived from

a substantial body of work on corporate governance, the framework has two dimensions (with two possibilities in each): The corporate objective (shareholder value maximisation and stakeholder value maximisation) and a behavioural model of executives (agents and stewards). This gives rise to four possible institutional logics: Corporate Logic, Investor Logic, Political Logic and Stakeholder Logic. The framework highlights that researchers have been studying the same institutional logics, but labelling them differently.¹⁹⁶ Thus, the framework enables prior corporate governance research on institutional logics to be unified and synthesised (see Chapter 2, Sections 2.5.1 to 2.5.5). Prior research is suggestive of an institutional battle between institutional logics in several countries, particularly between Corporate Logic and Investor Logic in the US (Green et al., 2008; Zajac and Westphal, 2004) and, possibly, in the UK (Lok, 2010). However, prior research has been narrowly focused on a few aspects of corporate governance (e.g. corporate objective and share option plans). The present study has been broader as it investigated how institutional logics are embedded in the discourse on executive remuneration as a whole.

An innovative and unique approach to both conceptualise and enable the study of the discourse on executive remuneration was developed. First, the discourse was deconstructed into three components: Principles, practices and processes. Second, following an extensive review of prior research, an inventory of remuneration principles was produced (see Chapter 3, Table 3.2). These provide a cognitive frame for directors and others when they are making, interpreting and justifying remuneration decisions. However, there are ambiguities inherent in and tensions between the remuneration principles. These were explored in the present study. Third, an inventory of remuneration practices was produced and these were then linked to the remuneration principles (see Chapter 2, Table 3.4). Fourth, after synthesising prior research, a model that illustrates how remuneration committees make and report remuneration decisions was produced (see Chapter 3, Figure 3.1). Fifth, consideration was given to how Corporate Logic and Investor Logic have different implications for remuneration principles, practices, and processes (see Chapter 3, Section 3.6). Thus, this has been the first study to investigate the discourse on executive remuneration as a whole from an institutional logics perspective.

¹⁹⁶ This is exemplified by Investor Logic, which is also been called: Agency Logic (Zajac and Westphal, 2004), Investor Capitalism (Green et al., 2008), Board Reform Logic (Shipilov et al., 2010) and Logic of Shareholder Value Maximisation (Lok, 2010).

The present study investigated how Corporate Logic and Investor Logic shape the discourse on executive remuneration in different institutional settings. AU, NZ and the UK were selected as opportune sites to study the predicted institutional battle between Corporate Logic and Investor Logic because there had been much public outrage over executive remuneration in AU and the UK, but not NZ (see Chapter 4, Section 4.2). Thus, it was expected that Investor Logic would be stronger than Corporate Logic in AU and the UK, but not in NZ. Differences between code issuers and companies were also anticipated. To explore how Corporate Logic and Investor Logic diffused and were embedded in discourse, two types of organisational texts, namely codes and corporate annual reports, were studied. These texts were produced over a long time period: 1991 to 2010 for codes as well as 1989 (UK only), 1998 and 2007 for corporate annual reports (see Chapter 4, Sections 4.4 and 4.5). Further, to explore potential differences between public and private discourse as well as the effect of Corporate Logic and Investor Logic on how remuneration committees make and report remuneration decisions, the talk of NZ directors, executives, remuneration consultants and code issuers was studied (see Chapter 4, Section 4.6).

9.2.1. Research Question 1

To what extent have Corporate Logic and Investor Logic become embedded in AU, NZ and UK organisational texts with respect to executive remuneration?

Chapter 5 showed that both Corporate Logic and Investor Logic had become widely diffused in AU, UK and, to a lesser extent, NZ codes and corporate annual reports by 2007. Also, the evidence is suggestive of code issuers exerting coercive and normative pressure on companies, and companies conforming (or adopting code issuers' recommendations). This is similar to Crombie et al.'s (2010) and Point and Tyson's (2006) findings. There are at least three possible explanations. First, a shared understanding between code issuers and companies emerged as code issuers produced and disseminated codes. Second, code issuers, who were often led by directors, produced codes that reflected the existing remuneration policies and practices of companies (see Section 9.2.4). In which case, the change simply reflects a shift from no disclosure to some disclosure. This means that both Logics may have already been embedded in how directors and others conceptualised executive remuneration. Third, as remuneration disclosure requirements changed in AU and the UK, companies had to disclose 'something' on executive remuneration and they simply adopted the wording found

in codes and in other companies' disclosure (this is known as the 'boilerplate disease'). Future research is required to explore the plausibility of these explanations.

Chapter 5 also showed that there was a change from no Logic to both Corporate and Investor Logic in the texts of code issuers and companies from AU, NZ and the UK. Both Logics appear to be legitimate discourse in that all the remuneration principles (except the fairness principle) form the recommendations of code issuers and remuneration policies of companies. This was markedly different to Zajac and Westphal's (2004) finding of a transition from Corporate Logic to Investor Logic in the US. However, Zajac and Westphal (1995, 2004) also show that practices can be symbolic. They found many US companies adopted but did not implement long-term incentive plans and stock repurchase plans. Therefore, it may be that the remuneration principles are symbolic, not substantive. Some code issuers and companies may be believers in one or both Logics, while others may adopt the remuneration principles in order to appear legitimate. For example, companies may use remuneration principles as a 'smokescreen' to hide executive remuneration practices that are inconsistent with societal expectations. Overall, the remuneration principles afford directors much flexibility in justifying executive remuneration practices (see Sections 9.2.2 and 9.2.3).

The following question arises from these findings: Given that Corporate Logic and Investor Logic have different implications for executive remuneration, how can both Logics co-exist in organisational texts? As aforementioned, this may be resolved if some remuneration principles are symbolic, while others are substantive. The findings are suggestive of an alternative explanation. The practiced version of Corporate Logic embedded in organisational texts is different to the theoretical version of Corporate Logic (see Chapter 2, Section 2.5.3) because the fairness principle is less widely diffused than the other remuneration principles, particularly in corporate annual reports. In the absence of the fairness principle, the practiced version of Corporate Logic conceptualises executives as talented individuals, capable of maximising shareholder value, but also wanting to be remunerated at the market rate. Companies have to be prepared to remunerate executives at levels above the median if they want to attract and retain talented executives.¹⁹⁷ This also implies that executives are extrinsically motivated and, therefore, monetary incentives are needed to control and direct

¹⁹⁷ When the human resources principle is unconstrained by the fairness rationale, there is a possibility that there will be a ratchet effect (or the Lake Wobegon effect), as Greenbury (1995) warned. However, further research is required to ascertain if this has occurred in AU, NZ or in the UK.

their behaviour. Thus, the tension between Corporate Logic and Investor Logic is resolved, enabling both Logics to co-exist in organisational texts.

9.2.2. Research Question 2

How, if at all, have Corporate Logic and Investor Logic influenced how executive remuneration has been conceptualised in AU, NZ and UK organisational texts?

Chapter 6 shows that there is shared understanding of executive remuneration among code issuers and companies in AU, NZ and the UK. At the core of this shared understanding are the remuneration principles (except the fairness principle). The remuneration principles are closely tied to executive remuneration practices. The human resources and market principles are tied to base salaries and recruitment and retention schemes. For companies, the human resources principle can be used to justify paying executives above the median relative to peers and awarding executives unconditional recruitment and retention payments. The agency, motivation and pay-for-performance principles are tied to short- and long-term incentive schemes. However, it is not often this straightforward. Code issuers and companies use each of the remuneration principles to justify many different executive remuneration practices. This illustrates the flexibility of the remuneration principles. First, the remuneration principles are difficult to dispute. For example, shareholders are unlikely to argue that boards should not use remuneration practices to attract and retain talented executives. Second, the remuneration principles are also open to interpretation. Notably, code issuers contribute to this flexibility because their recommendations are principle-based, non-specific and often unrestrictive with respect to executive remuneration practices.

Chapter 6 also shows that there is a standard remuneration package for executives, although it has changed over time. In the oldest of the sampled codes and corporate annual reports, the standard remuneration package was simple: Executives received base salaries, pensions, annual bonuses, and, possibly, share options. In the most recently sampled texts, the standard remuneration package is complex: Executives received base salaries (a portion of which may be ‘at-risk’), pensions (although not defined benefit schemes), annual bonuses (a portion of which may be deferred), share options and restricted shares. Also, conditions attached to short- and long-term incentives have become increasingly complex. For example, targets must be met for share options or restricted shares to be granted and further targets must be met for those share options or restricted shares to be exercised. Further research is required to

ascertain the precise timing of these changes in codes' recommendations and companies' practices. However, these changes have not altered the fundamental tenet of the standard remuneration package: Executives are capable of maximising shareholder value, but only if executive remuneration practices are designed appropriately.

The illustrative examples presented in Chapter 6 show that both Corporate Logic and Investor Logic are embedded in the discourse on executive remuneration. However, the practiced version of Corporate Logic embedded in the discourse is different to the theoretical version as the fairness principle is rarely tied to any executive remuneration practices. Further, the discourse analysis did not reveal any alternative remuneration principles or institutional logics. There was no support for a transition in institutional logics over time. Instead, companies went from no remuneration disclosure in the 1990s to a lot in the 2000s. The first stage of the discourse analysis revealed that almost all remuneration practices can be justified in a manner that is consistent with Corporate Logic only, Investor Logic only or both Logics. This may mean that the discourse is symbolic in that corporate annual reports may be used to defend executive remuneration against criticism and may not be reflective of how remuneration decisions are made in the boardroom (this is analogous to impression management; for a review see Merkl-Davies and Brennan, 2007). It may also mean that there are different groups of companies, where each of the Logics is embedded in their beliefs to varying degrees.

The second stage of the discourse analysis revealed that few codes or corporate annual reports in their entirety were consistent with Corporate Logic only or Investor Logic only. This finding may be attributable to the breadth of both Logics' implications for corporate governance and executive remuneration (see Chapter 2, Table 2.3 and Chapter 3, Tables 3.2 and 3.5). It is also a result of there not being a definitive indicator of any Logic, although a transition between Logics may be evidenced by a change in the desired and actual mix of remuneration. This is an opportunity for future research. Further, the second stage presented a number of exemplars of each of the Logics. Stakeholder Logic appeared to be symbolic because companies that espoused stakeholder value maximisation had performance measures that emphasised profit and shareholder value. In the sub-sample studied in Chapter 6, Associated British Foods (UK, 1998) was the only exemplar of Corporate Logic only. However, both Logics became embedded in their discourse by 2007 and this change is attributed to a change in societal norms (i.e. a strengthening of Investor Logic). Some codes

and corporate annual reports were presented as exemplars of Investor Logic only because of their strong emphasis on performance-based remuneration. The case of Brierley Investments (NZ, 1998) also illustrated how Investor Logic can be used to defend a company and its board during a legitimacy crisis.

9.2.3. Research Question 3

How, if at all, do Corporate Logic and Investor Logic influence the thinking and decision-making of NZ organisational actors with respect to executive remuneration?

Chapter 7 shows that both Corporate Logic and Investor Logic are embedded in the discourse (or talk) of NZ directors, executives and others. Directors and executives asserted that the corporate objective should be and is shareholder value maximisation. When making remuneration decisions, they believed that shareholders' interests are paramount, rather than non-shareholding stakeholders. However, directors also believed that companies should not have to be required to produce a remuneration report on which shareholders would vote. Further, directors and executives did not describe executives as being purely agents or purely stewards. They believed that executives are motivated by both extrinsic and intrinsic rewards. There was no suggestion of a crowding-out effect (Frey and Osterloh, 2005). They also believed that most executives will act in the best interests of shareholders, even if such actions may reduce the likelihood of receiving bonuses. However, a few directors recalled some instances of executives putting their interests ahead of those of shareholders (i.e. myopic behaviour). Thus, executive behaviour is ambiguous, complex and dynamic. It cannot be reduced to agent or steward. This partially explains why both Corporate Logic and Investor Logic are embedded in the discourse because executives are part-agent and part-steward.

NZ directors and executives also talked of remuneration principles and remuneration practices. They generally agreed that the remuneration principles as a set represent 'best practice' for companies. Notably, the fairness principle was almost never described in terms of vertical equity. Instead, directors and executives usually defined fairness in terms of shareholders' interests and horizontal equity (i.e. the market principle). Similar to Ogden and Watson (2011), the market principle was prioritised ahead of the other principles. Also, the market principle acted as a partial constraint on the human resources principle. Put differently, while all directors (except one) advocated remunerating at the median or above, they were wary of remuneration levels exceeding the upper quartile. Further, the standard

remuneration package was both recommended and practiced. The remuneration principles were closely tied to a range of executive remuneration practices. While each practice could be justified with multiple remuneration practices, the pay-for-performance principle was tied to annual bonuses and the agency principle was tied to equity bonuses. Interestingly, directors provided four different rationales for using short- and long-term incentives: Motivate executives, retain executives, gain approval from shareholders for the level of remuneration, or share profits between shareholders and executives. Thus, both Logics are embedded in the discourse because directors and executives had a wide range of beliefs.

The internal dynamics of remuneration decision-making are complex. NZ directors believed that the most critical decisions are related to hiring and replacing executives, rather than how much and how executives are remunerated. Essentially, if directors hire the ‘right’ executives, then they do not have to worry about firm performance. Similarly, if executives are not performing as expected, then directors must know when to replace them to prevent poor firm performance. Also, directors have limited time to make remuneration decisions. Other decisions (e.g. strategic planning and budgeting) are given priority over remuneration decisions. Further, remuneration committees follow a standard process in making remuneration decisions. They review of the performance of the CEO and, possibly, his/her direct reports. Remuneration consultants provide data and advice on the positioning of the level of remuneration and the latest trends in short- and long-term incentive schemes. Then there will be some negotiation between the chairman (or the remuneration committee) and the executives. However, directors commented that executives tend to negotiate vigorously when they are hired, rather than when remuneration is set each year. On the whole, both Corporate Logic and Investor Logic influence this process, but in an uncertain way because directors, executives and consultants have a range of beliefs, although almost all of them want the same outcome from this process (i.e. the standard remuneration package).

The external dynamics of remuneration decision-making are also complex. In making remuneration decisions, NZ directors were most strongly influenced by their perceptions of how investors and, to a lesser extent, the media would react to their decisions. Some directors recalled making hiring and remuneration decisions which they perceived to be sub-optimal because they thought that investors and the media would not have recognised the optimal (or rational) decision as legitimate. Remuneration committees were also subject to institutional pressures. Mimetic pressure was strong because directors did not want to make remuneration

decisions that were markedly different from their competitors (i.e. the conformance and market principles). This was reinforced by consultants who provided remuneration committees with intelligence on their competitors. Normative pressure was also strong because directors have strong personal and professional networks. Imitation occurred as directors discussed their decisions with other directors. However, coercive and normative pressures in the form of codes were weak. Some directors had read the NZ codes, while other directors were not aware that NZ codes offered any guidance on executive remuneration. Many directors also believed that code issuers do not have the expertise to offer guidance to directors. Thus, the embedding of both Logics was reinforced by normative and mimetic pressures.

9.2.4. Further Findings

Drawing on prior research and the findings from Chapters 5, 6 and 7, additional insights into how Corporate Logic and Investor Logic have shaped the discourse on executive remuneration are generated in Chapter 8. First, the definitions of Corporate Logic and Investor Logic are revisited and then a definition of the combination of both Logics is considered. Both Logics are able to co-exist because of the distribution of beliefs among directors, investors, regulators and others.

Second, the origins and diffusion of both Logics are discussed. The origins of Corporate Logic and Investor Logic are unclear, but date back at least as far as the British Industrial Revolution. It is likely that Corporate Logic and Investor Logic were not invented by an individual. Their core ideas emerged as employers first hired employees and then decided how to remunerate them. The historical diffusion of Corporate Logic and Investor Logic is not yet well understood, but business schools, consultants, directors' networks, investors and regulators would have contributed to the diffusion. There is room for further research on that topic. With respect to being the legitimate discourse in society, Investor Logic has become stronger than Corporate Logic in recent times due to public outrage over corporate scandals and financial crises. Corporate Logic and Investor Logic did not diffuse from code issuers to companies because directors and their advisors were members of and lobbied code issuers. It is likely that most codes are reflective of best practice among companies and, in this respect, represent a defence of business in an attempt to quell public outrage over corporate scandals and financial crises.

Third, how Corporate Logic and Investor Logic influence the process of making and reporting remuneration decisions is explored further. Notably, the complexity of the standard remuneration package for executives cannot be fully explained by the merging of both Logics. Instead, the complexity is a result of the political nature of the institutional setting. There are many parties with a range of beliefs, although investors' beliefs are likely to be consistent with Investor Logic. Each party's objective is to have their beliefs become the legitimate discourse. However, no single party is dominant. Negotiation results in compromise. At the organisational field level, this negotiation is described in terms of competitive and institutional pressures. Normative and mimetic pressures in the form of belief in the human resources and market principles by directors and consultants appear to be the strongest. At the organisational level, this negotiation is manifested in directors struggling to reconcile what they believe is efficient with what they believe is legitimate. The institutional identity of directors as problem-solvers, where short- and long-term incentive schemes are their toolkit, also constrains the possible decisions that directors can legitimately make.

Fourth, the concept of an institutional position is introduced. This is a new and original concept that has not appeared in prior research on institutional theory. As Corporate Logic and Investor Logic can be substantive or symbolic, there is a range of possible institutional positions that companies can occupy. Each institutional position that companies can occupy may or may not be legitimate. Prior research and the present study indicate that code issuers, investors and others favour institutional positions where Investor Logic is substantive. However, some companies' use of Investor Logic may be symbolic. This enables companies to maintain a private discourse that differs from their public discourse and is inconsistent with societal expectations. Examples from Chapter 6 illustrate that companies can hold a range of institutional positions. The case of Enron's collapse is used to illustrate that when symbolic discourse is revealed, companies can find themselves severely sanctioned. Further research is required in order to determine the distribution of companies across the different institutional positions.

9.2.5. Contribution to Knowledge

The present study contributes to knowledge as follows:

1. Advancing Zajac and Westphal (2004), the definitions of Corporate Logic and Investor Logic are clarified and extended. Both Logics have implications for

executive remuneration principles, practices and processes, and these are explicated (see Chapters 3, 6, 7 and 8).

2. Prior research on executive remuneration has lacked a comprehensive framework for conceptualising and studying the discourse on executive remuneration. Thus, such a framework has been constructed (see Chapters 2 and 3) and then the robustness of the framework has been validated through content and discourse analyses of talk and texts (see Chapters 5, 6 and 7).
3. Extending Zajac and Westphal (2004), some insight into the origins and diffusion of Corporate Logic and Investor Logic have been generated, particularly with respect to recent times in AU, NZ and the UK (1989-2010) (see Chapters 5 and 8).
4. Adding to the small but growing body of research that has taken an institutional logics perspective (for a review see Thornton and Ocasio, 2008), it has been shown how Corporate Logic and Investor Logic co-exist, as distinct from compete, in the discourse on executive remuneration.
5. Bridging the macro-micro divide (Alvesson and Kärreman, 2000), it has also been shown that while there has been a strengthening of Investor Logic at the organisational field level, both Corporate Logic and Investor Logic have been reinforced at the organisational level. This occurs because while the remuneration principles are widely diffused, the fairness principle is not defined in terms of vertical equity and the human resources/market principles are prioritised ahead of other principles (see Chapters 6, 7 and 8).
6. There is a small but growing body of knowledge on how remuneration committees make decisions, much of which had not been published when the present study was initiated (see Chapter 3). Chapter 7's findings confirm the findings from prior qualitative research on remuneration committees (e.g. Bender, 2004; Main et al., 2008; Hermanson et al., 2011). Extending prior research, beliefs of directors and executives are shown to be influential with respect to how decisions are made and reported. Building on prior research, Chapter 8 also showed that a range of competitive and

institutional pressures influence how remuneration committees make and report decisions.

7. Adding to Lok (2010), who studied corporate governance, not executive remuneration, the present study explored how both Corporate Logic and Investor Logic influence the institutional identity of directors and consequently how they make remuneration decisions (see Chapters 7 and 8).
8. Reconciling the theoretical concept of organisational legitimacy (Scott, 2008; Suchman, 1995) and the symbolic management perspective on corporate governance (Fiss and Zajac 2004, 2006; Westphal and Zajac, 1998, 2001; Zajac and Westphal, 1995, 2004), the concept of the institutional position was introduced, which illustrates how companies attempt to maintain their culture (which may or may not fit with societal expectations) and their legitimacy in society.

9.3. Theoretical Implications

With respect to institutional theory, the present study has three significant implications. First, the findings add weight to the claim that people's beliefs (i.e. Corporate Logic or Investor Logic) determine what is efficient and legitimate in society. This builds on Thornton and Ocasio (2008, p.105), who pointed out that, "Key constructs in the analysis of organization, such as efficiency, rationality, participation, and values are not neutral, but are themselves shaped by the logics of inter-institutional system." In their seminal paper on institutional theory, DiMaggio and Powell (1983) argued that organisations change for two reasons: Competitive pressure (or efficiency) and institutional pressures (or legitimacy). They believe that efficiency and legitimacy are distinct but overlapping arbiters of organisational survival. Institutional researchers have propagated this view. For example, Westphal and Zajac (1994) and Zajac and Westphal (2004) argue that companies use long-term incentive plans to enhance their efficiency or legitimacy. Similarly, Aguilera and Cuervo-Cazurra (2009) argue that code issuers produce codes because they believe that if companies comply with their recommendations, then companies will perform better and, hence, the economy will grow faster (i.e. efficiency); or they believe that doing so will enhance their companies' and country's legitimacy. However, what is efficient is politically negotiated and socially constructed (see Chapters 7 and 8). It is dependent on the beliefs, norms, rules and values

which become taken-for-granted or institutionalised within a society (Alford and Friedland, 1985; Scott, 2008). Thus, efficiency is a subset of legitimacy.

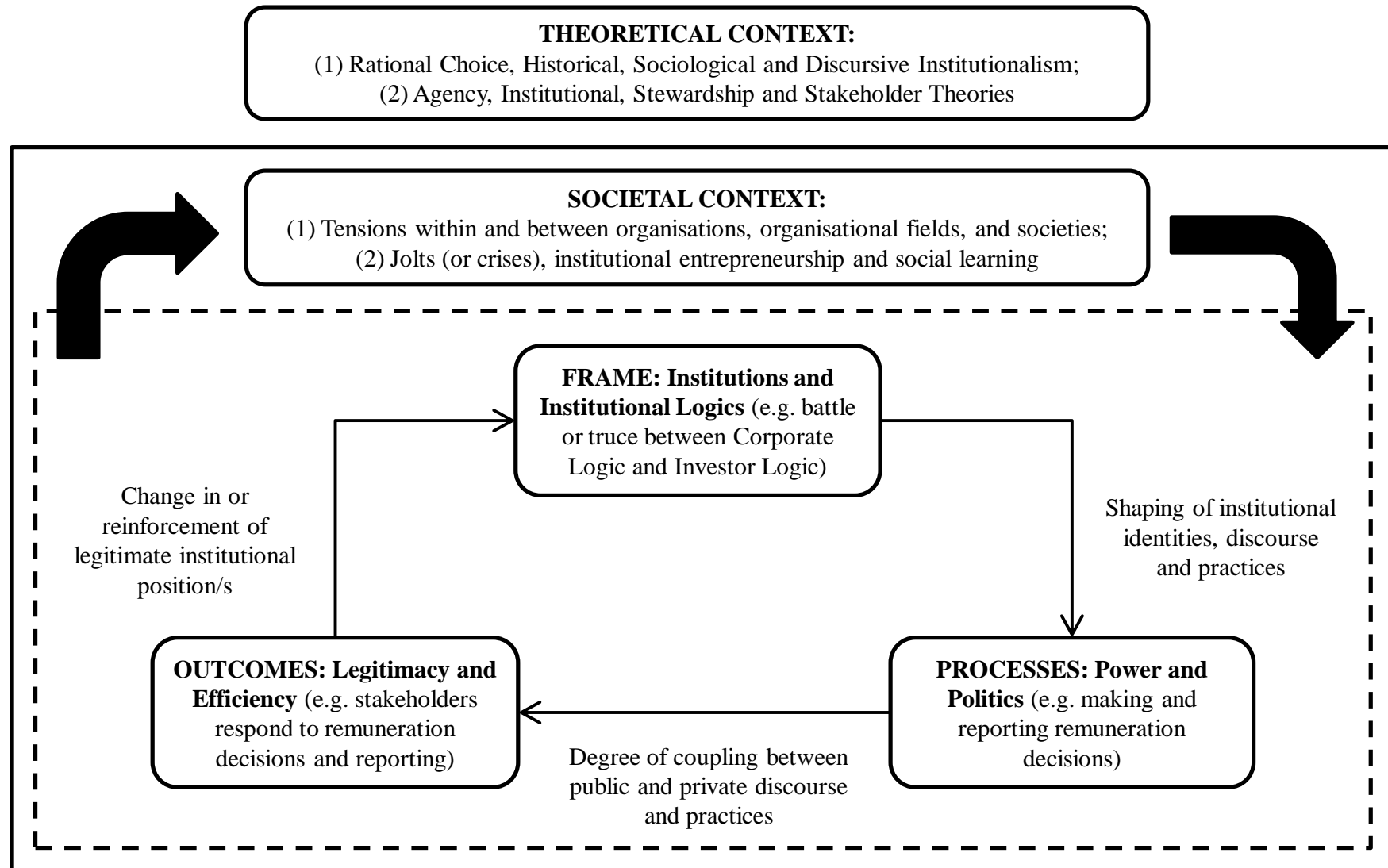
Second, a toolkit for researchers who wish to adopt an institutional logics perspective is provided. Lounsbury (2007, p.302) remarks that “most environments are subject to multiple, competing logics that provide a foundation for ongoing contestation and change...” When the present study was initiated, there were no theoretical frameworks and analytical tools available to make it clear how to study “multiple, competing logics” in institutional settings where there has been much change. The toolkit developed here (see Chapters 2, 3 and 8) should be of much use to researchers who want to deconstruct the discourse on executive remuneration and who want to understand how institutional logics of corporate governance diffuse over time. Further, the original concept of the institutional position will help researchers to understand how organisations manage “ongoing contestation and change”. In addition, this toolkit will help researchers to frame and synthesise their findings, so that coherence and a more complete understanding of institutional change from an institutional logics perspective can be generated. While organisations and organisational fields can be ambiguous, complex and dynamic, an institutional logics perspective can bring striking clarity as has been shown (see Chapter 8, Section 8.4.4).

Third and most importantly, this PhD research has begun to develop an institutional theory of executive remuneration, which is presented in Figure 9.1. As shown in the ‘theoretical context’, there are many organisational theories and branches of institutional theory that shed light on the social reality of executive remuneration (see Chapter 2, Sections 2.3 and 2.4). The evidence summarised in this Chapter points towards an institutional logics perspective (or discursive institutionalism) being particularly insightful. Within this theory, the ‘societal context’ shapes and, to a lesser extent, is shaped by how executive remuneration decisions are made and reported by companies, and how stakeholders interpret and respond to these decisions (see Chapter 3, Figure 3.1). The present study indicates that both Corporate Logic and Investor Logic shape remuneration principles, practices and processes. However, both Logics are not simply constraints (‘an iron cage’), but are also enablers because of the ambiguous nature of each Logic and tension between the Logics. For example, the remuneration principles afford the remuneration committee much flexibility in making and reporting remuneration decisions. Further, given the distribution of beliefs among directors,

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executives, investors and others, the process depicted is dynamic and political, where multiple parties are involved in the negotiation of executive remuneration.

Figure 9.1: Towards an Institutional Theory of Executive Remuneration



Institutions and institutional logics (e.g. Corporate Logic and Investor Logic) provide the ‘frame’ for organisational discourse and practices (e.g. remuneration principles and the standard package for executives) within an organisational field. Institutional logics also shape the institutional identities of powerful organisational actors such as institutional investors, non-executive directors and executives (see Chapters 7 and 8; Lok, 2010; Zajac and Westphal, 2004). This identity work defines how organisational actors will construct their institutional identity and shapes how organisational actors will interpret and justify remuneration decisions. For example, non-executive directors believe that remunerating ‘high-performing’ executives below the median level relative to their peers would be abnormal (see Chapter 7). Further, the prevailing institutional logics inform organisational actors of what is efficient (or socially desirable means-end relationships). For example, Investor Logic implies that short- and long-term incentives can motivate executives (‘means’) to maximise shareholder value (‘end’). The prevailing institutional logics also inform organisational actors of what is legitimate (or societal expectations). For example, companies are expected to adopt codes’ recommendations, despite limited empirical evidence that doing so will enhance efficiency (see Chapter 2). However, there is ambiguity within and tension between institutional logics. Corporate Logic and Investor Logic can be interpreted in different ways; this has been illustrated in the present study (see Chapters 6 and 7).

‘Processes’ refer to how remuneration committees make and report remuneration decisions in the broadest sense. There is a private (or hidden) process by which non-executive directors meet to negotiate with executives and then make these decisions. There is also a semi-public process where they seek to discuss these (potential) decisions with financial analysts and institutional investors, as well as a public process where they seek shareholder and public approval of their decisions. Code issuers and codes are also potentially influential in these processes, although non-executives directors and their advisors and associations may have captured the process of code production (see Appendix E). All of these processes involve power and politics as the different parties have a variety of beliefs and interests, and they are attempting to negotiate outcomes that fit their institutional identities and fulfil their needs/desires. For example, Hendry et al. (2006) and Lok (2010) found that institutional investors want companies to maximise shareholder value in the short-term. This is a social reality where organisational actors have semi-autonomous preferences that are constrained by the prevailing institutional logics (see Chapter 7; Lok, 2010).

The ‘outcome’ of the aforementioned processes is remuneration committees making and reporting remuneration decisions that may be substantive/coupled or symbolic/decoupled. Companies normally occupy an institutional position that appears to be legitimate to powerful stakeholders such as investors and regulators in order to gain access to resources and avoid costly sanctions. As stakeholders respond to companies’ remuneration decisions, they are inherently judging the efficiency and legitimacy of those decisions. For example, Zajac and Westphal (2004) found that investors reward both substantive and symbolic remuneration practices. While the present study did not investigate how stakeholders respond to companies’ remuneration decisions, Chapter 7 did show that non-executive directors are deeply concerned with how investors and others perceive their remuneration decisions. Chapter 8 discussed how this process can result in companies gaining, maintaining or losing their legitimacy by occupying legitimate or illegitimate institutional positions, but further research is required. Moreover, occupying an illegitimate institutional position affects not only the company, but the whole organisational field as code issuers, particularly regulators, respond by producing new laws and codes. Thus, as stakeholders respond to remuneration decisions, the prevailing institutional logics and legitimate institutional positions may be reinforced or changed.

The broader ‘societal context’ affects the distribution of beliefs (e.g. executives as agents or stewards) among organisational actors and their power within an organisational field. This is because there are many institutions, institutional logics and institutional processes within the societal context that influence any given organisational field (Alford and Friedland, 1985; Thornton et al., 2005). For instance, Fiss and Zajac (2004, 2006) found that Investor Logic and Stakeholder Logic are competing in Germany, partially due to changes in financial regulations. The present study found that jolts (or crises) result in new codes being produced, and that the remuneration principles are common to both codes and corporate annual reports. However, codes may be a defence against public outrage over crises (e.g. corporate scandals and rewards for failure) as non-executive directors are heavily involved in code production. Institutional entrepreneurship and social learning can also bring about institutional change in an organisational field (Battilana et al., 2009; Zajac and Westphal, 2004), although such possibilities were not investigated in the present study. Overall, while there is no doubt that economic, political and social trends will shape the prevailing institutional logics and remuneration principles, practices and processes, further research is required to understand the strength and nature of these influences.

9.4. Practical Implications

Before the practical implications of the present study's findings are considered, heed of what motivated this research is taken and what beliefs the researcher holds about the potential for theory to become embedded in practice (or for academics to influence practitioners) is considered. Inspiration was drawn from the work of the late Sumantra Ghoshal, particularly his posthumous article, entitled, "Bad Management Theories are Destroying Good Management Practices" (Ghoshal, 2005, p.75). Ghoshal argued that neo-classical economics, particularly agency theory, has had a negative impact on society because the teaching of these ideas has taught managers that society expects them to act opportunistically.

Ghoshal (2005, p.87) argued:

"In essence, social scientists carry an even greater social and moral responsibility than those who work in the physical sciences because, if they hide ideology in the pretense of science, they can cause much more harm."

This PhD research has been motivated by Ghoshal's concern that ideology may be a hidden subtext in scientific endeavour. As has been shown, both Corporate Logic and Investor Logic are embedded (or hidden) in academic, business and political discourse on executive remuneration. As sets of beliefs, not empirical truths, both Logics can skew the beliefs and judgement of decision-makers. This partially explains why executive remuneration practices have become so complex over time (see Chapter 8).

The beliefs of others cannot, however, be condemned. Instead, academics, directors, regulators, and others are urged to critically reflect on their beliefs and how their beliefs shape their decisions. However, the search for the Holy Grail of executive remuneration – a means for ensuring that executives will act in the best interests of shareholders – is condemned as it is an eternal and, ultimately, pointless quest because there is no Holy Grail. There is no one best way of designing executive remuneration for all companies. It appears that different variants of performance-based remuneration have been repeatedly heralded as the Holy Grail. Profit-sharing, executive share option schemes, restricted share schemes, and the like do not stand up to close scrutiny. Executives do not possess the calculative abilities to alter their actions in such a way that they will optimise their incentive payments (Pepper et al., 2012). Therefore, academics, directors, regulators and others should contemplate the following

question: How, if at all, would executives' actions change if their remuneration packages were simplified?

There are many different types of code issuers including regulators, stock exchanges, investors' associations, directors' associations, business (or executives') associations, and professional associations. An off-hand reading of Chapter 6 might appear to infer that code issuers should provide detailed rules that mandate how boards and remuneration committees should make and report remuneration decisions. Such an interpretation would be wrong. However, further official inquiries in the vein of the UK's Greenbury (1995) report are necessary in order to illuminate the difficulties boards and remuneration committees experience in making and reporting remuneration decisions. Code issuers should reconsider their support for the human resources/market principles because of the ratchet effect. It seems unreasonable to expect all companies to pay competitively because, by definition, some executives must be below average. Similarly, they should reconsider their support for the agency/pay-for-performance principles. The empirical evidence is unequivocal: Companies that adopt performance-based remuneration do not necessarily maximise shareholder value (Rost and Osterloh, 2009; Tosi et al., 2000; Devers et al., 2007). Finally, code issuers should be careful in how they phrase their recommendations in order to avoid boilerplate language (e.g. "attract, motivate and retain") being propagated (see Chapters 5 and 6; Point and Tyson, 2006).

Recruitment and remuneration consultants should also reconsider their support for the remuneration principles (as per above). This is because consultants have a central, but hidden role in making remuneration decisions. Recruitment consultants can sway the remuneration expectations of candidates (i.e. potential executives) and boards. Remuneration consultants can sway remuneration committees' decisions on the level and design of remuneration packages for executives. As one NZ consultant argued, "*So consultants actually do not just do comparisons, they define norms within the remuneration market.*" It would be too easy to argue that employment contracts and remuneration consultants' reports should be disclosed. Some may argue that a little bit of sunshine is the best disinfectant. However, adding remuneration disclosure requirements does not result in lower levels of executive remuneration or increased sensitivity of executive remuneration to firm performance (e.g. Conyon and Salder, 2010). Instead, recruitment and remuneration consultants should, if they do not do so already, take a holistic approach to executive motivation in order to ensure that

their clients consider non-financial and intrinsic rewards when designing employment contracts and remuneration practices (e.g. Frey and Osterloh, 2002).

Directors, particularly members of remuneration committees, do not have an easy job. They have to balance the competing interests of multiple parties. They have to make decisions that are rational from their perspective, keep executives satisfied and minimise the risk of outrage from shareholders and the public. Certainly, the NZ directors who volunteered their time to participate in this research were intelligent and methodical in how they made and reported remuneration decisions. They also had strong beliefs. As documented in Chapter 7, some of their beliefs were strongly consistent with Corporate Logic and/or Investor Logic. The main weakness in the NZ directors' reasoning was that almost all of them believed the executives they hired were stronger performers, deserving of the remuneration that was set at the median or higher relative to their peers. This line of reasoning could result in a ratchet effect. An alternative explanation is that the NZ directors interviewed were from companies that outperformed their competitors, which also explains why they recommend above-average remuneration.¹⁹⁸ Nevertheless, directors should reconsider their beliefs and the executive remuneration practices that they currently use. However, it may be following critical reflection, they find that no change is warranted. After all, there is no one best solution.

Executives are portrayed in academic, business and political discourse as being capable of maximising shareholder value, but only if they are coerced by short- and long-term incentive schemes (see Chapter 6). Instead of using complex incentive schemes with multiple targets, one NZ executive argued for a simpler approach: Salary plus a substantial bonus for achieving a significant objective, but with no time frame. He thought that having annual targets served only to promote business as usual, rather than business transformation. However, most of the NZ directors and executives interviewed also argued that executives are motivated by a range of extrinsic and intrinsic rewards. Performance-based remuneration was not portrayed as the only or best means of motivating executives. On the other hand, there may be a self-selection effect, where the executives of for-profit companies are, on average, more extrinsically motivated than their counterparts in not-for-profit entities.

¹⁹⁸ This alternative explanation cannot be easily dismissed because there is no objective measure of firm performance. However, the NZ directors that were interviewed have been directors of companies that have experienced both rising and declining firm performance in terms of profitability and shareholder returns.

One NZ director remarked:

“[T]here’s a [lot] of people out there who are not driven for one moment by the dollar... I can tell you that the CFO of [a charity] who is highly confident. And I would quite happily employ [this CFO] in a senior role in [a listed company]... [This CFO says] ‘I want to be benchmarked against other relevant entities, but deduct 25% from my salary...’ Do you find that in a corporate world? No you don’t.”

On the whole, executives should reconsider their beliefs and, if they do not already, discuss with their boards what motivates them. Perhaps, executives should reject some components of their remuneration packages that cannot realistically have any effect on their behaviour.

9.5. Future Research Opportunities

Prior research has not studied the discourse on executive remuneration, as a whole, from an institutional logics perspective. This has meant that many avenues for future research have been mentioned throughout this PhD thesis. The most pressing of these future research opportunities are discussed here.

Drawing on content and discourse analysis, Chapters 5, 6 and 7 showed how the discourse on executive remuneration can be deconstructed into remuneration principles, practices and processes and then reconstructed from an institutional logic perspective. In doing so, the nature of Corporate Logic and Investor Logic was revealed. However, the content analysis in Chapter 5 was limited to the study of six remuneration principles and the discourse analysis in Chapter 6 did not quantify the multitude of remuneration practices that form part of the discourse (e.g. change in incidence of practices over time). A significant future research opportunity is mapping and quantifying the discourse on executive remuneration. Chapter 3, Table 3.5 sets out the theoretical differences between Corporate Logic and Investor Logic, which researchers can use as a map to study the discourse. The main drawback of this approach is that the historical diffusion of Corporate Logic and Investor Logic cannot be easily studied because of scant remuneration disclosure requirements prior to the 1990s in most countries. Nevertheless, recent trends in the diffusion of Corporate Logic, Investor Logic and alternative Logics (e.g. Stakeholder Logic) can be studied.

When studying recent trends in the diffusion of Corporate Logic and Investor Logic, there are at least three opportunities for future research. First, how AU and UK companies change their discourse on executive remuneration following a large negative shareholder vote on their

remuneration report should be studied. As noted in Chapter 8, organisational fields are political arenas and remuneration disclosure is partially rhetorical in nature. Such research would generate insight into how competitive and institutional pressures influence companies and how they respond to these pressures. Second, trends in companies' desired and actual mix of fixed and variable remuneration should be tracked. This will show how support for Corporate Logic and Investor Logic waxes and wanes over time. Third, companies' corporate objectives and performance measures should be studied. Chapter 6's findings indicated that some companies had a mismatch because their mission statements were stakeholder-oriented, but their performance measures were profit- and shareholder value-oriented. This would build on Fiss and Zajac's (2004; 2006) and Zajac and Westphal's (1995; 2004) research on the symbolic and substantive nature of Corporate Logic, Investor Logic and Stakeholder Logic.

The main limitation of studying the historical diffusion of institutional logics is that public discourse is not necessarily reflective of private discourse. With respect to the discourse on executive remuneration, there is almost no public discourse in corporate annual reports prior to the 1990s in AU, NZ and the UK. To resolve this limitation, researchers should seek access to organisational archives. Archival research can generate much insight into how external and internal pressures influence how decisions are made in organisations. Two types of organisations should be studied: Code issuers and companies. As noted in Chapter 8, code issuers produce consultation documents, receive hundreds of submissions from the public and then produce official reports and codes. Some code issuers do maintain archives that researchers can access (e.g. The Cadbury Archive, <http://www.jbs.cam.ac.uk/cadbury/>). The members of code issuers have to wade through a mass of talk and texts before making their recommendations. Drawing on an institutional logics perspective, research should investigate the beliefs embedded in this talk and text in order to understand how recommendations are made. For instance, members of code issuers may be swayed by those with shared (not different) beliefs.

Companies also maintain archives of the minutes from board and committee meetings. Researchers should seek access to historical (not recent) materials in companies' archives in order to increase the likelihood of being granted access (e.g. Johanson, 2008). Pye (2000, 2002) showed that the talk of UK directors has changed over time. Specifically, she found that directors talked of "a strategic focus", "shareholder value" and "corporate governance" in

the late 1990s, while this talk had not been present in the late 1980s. This may be evidence of a transition from Corporate Logic to Investor Logic. There are two lines of inquiry that researchers could follow. First, researchers could study patterns in phraseology between companies in similar and different institutional settings. Using content analysis, this would generate insight into how institutional logics have diffused (or waxed and waned) over time. Second, researchers could carry out case studies of a single company's archive in order to understand how institutional logics compete or co-exist in the talk of the boardroom. Using discourse analysis, researchers could produce a more fine-grained understanding of how remuneration decisions are made. Particular attention should be given to how remuneration principles are prioritised (or ordered) when remuneration decisions are made (see Chapter 7).

However, researchers should not shy away from studying recent times and gaining access to directors and others. As this research found, many directors and executives are willing to be interviewed and help researchers gain an understanding of their social realities. The main limitation of the interview phase of the present study was that investors (e.g. fund managers), analysts, media, politicians, and other non-shareholding stakeholders were not interviewed. It was argued in Chapter 8 that there is a distribution of beliefs among these parties and that this distribution along with the political nature of decision-making (e.g. people have to make compromises) has resulted in the emergence and entrenchment of an overly-complex remuneration package for executives. Some poignant questions to ask these parties are: How do they think the standard remuneration package influences how executives make decisions? How do they predict executives would behave if they received simpler remuneration packages (e.g. salary plus a portion of earnings)? It is unrealistic to expect executives to be able to determine the optimal course of action given the array of incentives in the standard remuneration package (Pepper et al., 2012). The rationality (or computational abilities) of executives are bounded (March and Simon, 1993). Thus, such research should further understanding of organisational decision-making from an institutional logics perspective.

Building on the preceding line of inquiry, researchers should survey a wide range of parties (as per above) in order to gain insight into the distribution of beliefs in society. The main limitation of comparative (or international) corporate governance research has been that prior research has focused on the regulatory frameworks of different countries, rather than the beliefs of people in different countries (Aguilera and Jackson, 2010). Further research in the vein of Edmonds and Hand (1976) and Witt and Redding (2012) is required to understand

what corporate objective people think companies should pursue and how people think executives should/do behave. In addition, people's opinions of the remuneration principles should also be ascertained. For example, questionnaires could be used to determine how directors rank (or order) the remuneration principles. If the human resources and market principles are ranked ahead of other principles, then this would explain why executive remuneration seems to only ever increase (see Chapter 7; Ogden and Watson, 2011). It would also add weight to the argument that Corporate Logic is substantive and Investor Logic is symbolic because it may be that executives are paid at the market rate irrespective of firm performance (see Chapter 8).

9.6. Conclusion

This PhD research has shown that ideas do indeed matter. Corporate Logic and Investor Logic are old ideas that have merged to become a coalescing discourse with durable meaning. Both Logics are deeply embedded in the discourse on executive remuneration. Both Logics provide a common thread that ties executive remuneration principles, practices and processes inextricably together. This is an intriguing finding because Corporate Logic and Investor Logic have opposing assumptions about how executives should behave, and directors and others have a range of beliefs that are consistent with Corporate Logic and/or Investor Logic. At the organisational field level, competitive and institutional pressures have compelled companies to adopt executive remuneration practices that are consistent with both Logics, although many companies have been more than willing to do so. At the organisational level, the institutional identity of (non-executive) directors compels them to adopt these practices, and they manage tensions by prioritising the remuneration principles. Further, the political nature of both organisations and organisational fields also explains why both Logics have merged and why executive remuneration practices have become complex. However, directors, code issuers, investors and others are urged to reconsider their beliefs and take a simpler approach to executive remuneration. A simpler approach does not constitute a silver bullet or the Holy Grail, but it is more transparent and its motivational effects are no worse than current practices.

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Appendix A: List of Codes of Practice

Appendix A includes references for the sampled codes of practice. The references are divided into three lists: Australia, New Zealand and the United Kingdom.

A.1. Australia

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A.2. New Zealand

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Appendix A: List of Codes of Practice

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Appendix B: List of Companies

Appendix B identifies the publicly listed companies that are sampled and the years in which their annual reports are sampled. There are two samples, 'Top 50' and 'Continuous', and some companies are included in both samples. The Top 50 sample includes the largest 50 companies by market capitalisation that were listed on the NZX (New Zealand Stock Exchange), ASX (Australian Stock Exchange) and LSE (London Stock Exchange) as at 31 December 1989 (LSE only), 1998 and 2007. Based on the largest 50 companies as at 31 December 2007, the Continuous sample includes companies that are continuously listed on the NZX, ASX and LSE from 31 December 1998 to 2007 and continuously listed on the LSE from 31 December 1989 to 2007. Note that the 1989 and 1998 lists of companies include those companies that merged to form a company on the 2007 list.

The sample is presented in three tables: Table B.1 includes the Australian companies, Table B.2 includes New Zealand companies and Table B.3 includes the United Kingdom companies. Some companies are listed on multiple stock exchanges and, therefore, could appear on two or three tables. However, companies that are listed on multiple stock exchanges are only included in the table of their home country. For example, Westpac Banking Corporation Ltd is an Australian company that is listed on both ASX and NZX, but is only listed on Table B.1.

Table B.1: Australian Sample of Publicly Listed Companies

Companies	UK 1989		UK 1998		UK 2007		AU 1998		AU 2007		NZ 1998		NZ 2007	
	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous
Alcoa Inc cd								✓	✓	✓				
Alumina Ltd (Formerly, WMC Limited)							✓	✓	✓	✓				
Amcor							✓							
AMP Limited							✓	✓	✓	✓	✓	✓	✓	✓
Australia and New Zealand Banking Group Limited							✓	✓	✓	✓	✓	✓	✓	✓
ASX Limited								✓	✓	✓				
Australian Foundation Investment Company							✓							

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Companies	UK 1989		UK 1998		UK 2007		AU 1998		AU 2007		NZ 1998		NZ 2007	
	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous
Australian Gas Light Company							✓							
AXA Asia Pacific Holdings Ltd (Formerly, National Mutual Holdings Ltd)							✓	✓	✓	✓				
Babcock & Brown Ltd									✓					
BHP Billiton Ltd					✓				✓	✓				
Bluescope Steel Ltd									✓					
Brambles Ltd (Formerly, Brambles Industries Ltd)							✓	✓	✓	✓				
Coca-Cola Amatil Ltd							✓	✓	✓	✓				
Coca-Cola Hellenic Bottling Company S.A.								✓	✓	✓				
Coles Myer Ltd							✓							
Colonial Ltd							✓							
Comalco Ltd							✓							
Commonwealth Bank of Australia Ltd							✓	✓	✓	✓				
Crown Ltd (Formerly, Publishing and Broadcasting Ltd)							✓	✓	✓	✓				
CSL Ltd								✓	✓	✓				
CSR Ltd							✓							
Fairfax Media Ltd							✓	✓	✓	✓				
Fortescue Metals Group Ltd (Formerly, Allied Mining & Processing Ltd)								✓	✓	✓				
Foster's Group Ltd (Formerly, Foster's Brewing Group Ltd)							✓	✓	✓	✓				
GIO Australia Holdings Ltd							✓							
Goodman Group Ltd (Formerly, Goodman Hardie Industrial Property Trust)								✓	✓	✓				
GPT Group Ltd							✓	✓	✓	✓				
Harvey Norman Ltd							✓	✓	✓	✓				
Howard Smith Ltd							✓							
Insurance Australia Group Ltd									✓					
Leighton (Formerly, Leighton Contractors Ltd)								✓	✓	✓				
Lend Lease Corporation Ltd							✓	✓	✓	✓				
Macquarie Airports Ltd									✓					
Macquarie Group Ltd (Formerly, Macquarie Bank Ltd)							✓	✓	✓	✓				
Macquarie Infrastructure Group (Formerly, Infrastructure Trust of Australia)								✓	✓	✓				
Mayne Nickless Ltd							✓							
National Australia Bank Ltd							✓	✓	✓	✓				

Companies	UK 1989		UK 1998		UK 2007		AU 1998		AU 2007		NZ 1998		NZ 2007	
	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous
Newcrest Mining Ltd (Formerly, Normandy Mining Ltd)							✓	✓	✓	✓				
News Corporation Inc (Formerly, The News Corporation Ltd)							✓	✓	✓	✓				
North Ltd							✓							
Orica Ltd							✓	✓	✓	✓				
Origin Energy Ltd (Formerly, Boral Ltd)							✓	✓	✓	✓				
Pacific Dunlop Ltd							✓							
Pioneer International Ltd							✓							
Placer Dome							✓							
Qantas Airways Ltd							✓	✓	✓	✓				
Qbe Insurance Group Ltd							✓	✓	✓	✓				
Rio Tinto Ltd	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Santos Ltd							✓	✓	✓	✓				
Southcorp Ltd							✓							
St George Bank Ltd							✓	✓	✓	✓				
Stockland (Formerly, Stockland Trust)								✓	✓	✓				
Suncorp-Metway Ltd								✓	✓	✓				
Tabcorp Holdings Ltd							✓	✓	✓	✓				
Telstra Corporation Limited							✓	✓	✓	✓	✓	✓	✓	✓
The Broken Hill Proprietary Company Ltd	✓	✓	✓	✓			✓	✓						
Toll Holdings Ltd								✓	✓	✓				
Transurban Group Stapled							✓	✓	✓	✓				
Wesfarmers Ltd							✓	✓	✓	✓				
Westfield Group Ltd (Formerly, Westfield Holdings Ltd)							✓	✓	✓	✓				
Westfield Trust							✓							
Westpac Banking Corporation							✓	✓	✓	✓		✓	✓	✓
Woodside Petroleum Ltd							✓	✓	✓	✓				
Woolworths Ltd							✓	✓	✓	✓				
Worleyparsons Ltd									✓					

Table B.2: New Zealand Sample of Publicly Listed Companies

Companies	UK 1989		UK 1998		UK 2007		AU 1998		AU 2007		NZ 1998		NZ 2007	
	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous
Air New Zealand Ltd											✓	✓	✓	✓
AMP NZ Office Trust											✓	✓	✓	✓

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Companies	UK 1989		UK 1998		UK 2007		AU 1998		AU 2007		NZ 1998		NZ 2007	
	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous
APN News & Media Ltd													✓	
Auckland International Airport Ltd											✓	✓	✓	✓
Bay of Plenty Electricity Ltd											✓			
Baycorp Holdings Ltd											✓			
BIL International Ltd (Formerly, Brierley Investments Ltd)											✓	✓	✓	✓
Carter Holt Harvey Ltd							✓				✓			
Cavalier Corporation Ltd											✓	✓	✓	✓
CDL Hotels New Zealand Ltd											✓			
Colonial Ltd											✓			
Contact Energy Ltd													✓	
Corporate Investments Ltd											✓			
DB Group Ltd											✓			
Ebos Group Ltd													✓	
Fernz Corporation Ltd											✓			
Fisher & Paykel Appliances Holdings Ltd													✓	
Fisher & Paykel Healthcare Corporation Ltd													✓	
Fisher & Paykel Industries Ltd											✓			
Fletcher Building Ltd (Formerly, Fletcher Challenge Ltd)											✓	✓	✓	✓
Goodman Fielder Ltd											✓	✓	✓	✓
Goodman Property Trust													✓	
Guinness Peat Group Plc											✓	✓	✓	✓
Hallenstein Glasson Holdings Ltd											✓	✓	✓	✓
Hellaby Holdings Ltd											✓	✓	✓	✓
Independent Newspapers Ltd											✓			
Infratil Ltd (Formerly, Infrastructure & Utilities NZ Ltd)											✓	✓	✓	✓
ING Medical Properties Trust													✓	
ING Property Trust													✓	
Kiwi Income Property Trust											✓	✓	✓	✓
Lion Nathan Ltd							✓				✓	✓	✓	✓
Lyttelton Port Company Ltd											✓			
Mainfreight Ltd													✓	
MetlifeCare Ltd											✓			
Michael Hill International Ltd													✓	✓
Milburn New Zealand Ltd											✓			
National Mutual Holdings Ltd											✓			
Natural Gas Corporation Holdings Ltd											✓			
New Zealand Oil and Gas Ltd												✓	✓	✓

Companies	UK 1989		UK 1998		UK 2007		AU 1998		AU 2007		NZ 1998		NZ 2007	
	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous
New Zealand Refining Company Ltd , The											✓	✓	✓	✓
Nuplex Industries Ltd											✓	✓	✓	✓
PGG Wrightson Ltd													✓	
Port of Tauranga Ltd											✓	✓	✓	✓
Ports of Auckland Ltd											✓			
Power New Zealand Ltd											✓			
Progressive Enterprises Ltd												✓		
Property for Industry Ltd												✓	✓	✓
Pumpkin Patch Ltd													✓	
Pyne Gould Corporation Ltd														✓
Qest New Zealand Ltd											✓			
Rakon Ltd													✓	
Reid Farmers Ltd														✓
Ryman Healthcare Ltd													✓	
Sanford Ltd											✓	✓	✓	✓
Skellerup Holdings Ltd													✓	
Sky City Entertainment Group Ltd (Formerly, Sky City Ltd)											✓	✓	✓	✓
Sky Network Television Ltd											✓	✓	✓	✓
Sovereign Ltd											✓			
St Lukes Group Ltd											✓			
Steel & Tube Holdings Ltd											✓	✓	✓	✓
Telecom Corporation of New Zealand Ltd								✓	✓	✓	✓	✓	✓	✓
Tourism Holdings Ltd												✓	✓	✓
Tower Ltd													✓	
Trans Tasman Properties Ltd											✓			
TransAlta New Zealand Ltd											✓			
Tranz Rail Holdings Ltd											✓			
TrustPower Ltd											✓	✓	✓	✓
Vector Ltd													✓	
Warehouse Group Ltd , The											✓	✓	✓	✓
Waste Management NZ Ltd											✓			
Williams & Kettle Ltd														✓
Wilson & Horton Ltd											✓			
Wrightsons Ltd														✓

Table B.3: United Kingdom Sample of Publicly Listed Companies

Companies	UK 1989		UK 1998		UK 2007		AU 1998		AU 2007		NZ 1998		NZ 2007	
	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous
Abbey National Plc	✓		✓											
Allied Zurich Plc			✓											

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Companies	UK 1989		UK 1998		UK 2007		AU 1998		AU 2007		NZ 1998		NZ 2007	
	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous
Allied-Lyons Plc	✓													
Amoco		✓												
Anglo American Plc (Formerly, Anglo American Corporation)	✓	✓	✓	✓	✓	✓								
Antofagasta Plc		✓		✓	✓	✓								
Asda Group Plc			✓											
Associated British Foods Plc		✓		✓	✓	✓								
Astra AB		✓		✓										
AstraZeneca Plc					✓	✓								
Aviva Plc					✓	✓								
BAA Plc			✓											
Bae Systems Plc					✓	✓								
Bank of Scotland Plc		✓	✓	✓										
Barclays Plc	✓	✓	✓	✓	✓	✓								
Bass Plc	✓	✓	✓											
BAT Industries Plc	✓	✓												
Benckiser NV				✓										
BG Group Plc (Formerly, British Gas Plc)	✓	✓	✓	✓	✓	✓								
Billiton Plc				✓										
BOC Group Plc	✓													
Boots Co Plc			✓											
BP Amoco Plc			✓	✓										
BP Plc					✓	✓								
British Aerospace Plc			✓	✓										
British American Tobacco Plc			✓	✓	✓	✓								
British Petroleum Co Plc	✓	✓												
British Sky Broadcasting Group Plc			✓	✓	✓	✓								
British Telecommunications Plc	✓	✓												
BT Group Plc			✓	✓	✓	✓								
BTR Plc	✓													
Cable & Wireless Plc	✓		✓											
Cadbury Schweppes Plc	✓	✓	✓	✓	✓	✓								
Centrica Plc				✓	✓	✓								
CGU Plc			✓	✓										
Colt Telecom Group Plc			✓											
Commercial Union Assurance Plc	✓	✓												
Consolidated Gold Fields Plc	✓													
Cordiant Communications Plc				✓										
Diageo Plc			✓	✓	✓	✓								
ED & F Man Group Plc				✓										
Enterprise Oil Plc	✓													
Fisons Plc	✓													
General Accident Plc	✓	✓												

Companies	UK 1989		UK 1998		UK 2007		AU 1998		AU 2007		NZ 1998		NZ 2007	
	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous
General Electric Company Plc	✓	✓	✓	✓										
GKN Plc			✓											
Glaxo Holdings Plc	✓	✓												
Glaxosmithkline Plc					✓	✓								
GlaxoWellcome Plc			✓											
Granada Group Plc			✓											
Grand Metropolitan Plc	✓	✓												
Great Universal Stores Plc	✓													
Grey Global Group Plc				✓										
Guardian Royal Exchange Plc	✓													
Guinness Plc	✓	✓												
Halifax Plc			✓	✓										
Hanson Plc	✓													
Hbos Plc					✓									
Hong Kong Shanghai Banking Corporation Plc		✓												
HSBC Holdings Plc			✓	✓	✓	✓								
Imperial Tobacco Group Plc				✓	✓	✓								
International Power Plc					✓	✓								
Kazakhmys Plc					✓									
Kingfisher Plc			✓											
Ladbroke's Plc	✓													
Land Securities Group Plc	✓	✓		✓	✓	✓								
Legal & General Group Plc	✓	✓	✓	✓	✓	✓								
Lloyds Bank Plc	✓	✓												
Lloyds TSB Group Plc			✓	✓	✓	✓								
Man Group Plc					✓									
Marks & Spencer Group Plc (Formerly, Marks & Spencer Plc)	✓	✓	✓	✓	✓	✓								
Midland Bank Plc	✓	✓												
Minorco S.A.		✓		✓										
National Grid Plc (Formerly, National Grid Group Plc)			✓	✓	✓	✓								
NatWest Plc (Formerly, National Westminster Bank Plc)	✓	✓	✓	✓										
Norwich Union Plc			✓	✓										
Old Mutual Plc					✓									
Orange Plc			✓											
Pearson Plc	✓	✓	✓	✓	✓	✓								
Peninsular & Oriental Steam Navigation Plc	✓													
Philip Morris Plc				✓										
Prudential Plc	✓	✓	✓	✓	✓	✓								
Racal Electronics Plc	✓													
Racal Telecom Plc	✓	✓												
Railtrack Group Plc			✓											
Reckitt & Colman Plc		✓		✓										

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Companies	UK 1989		UK 1998		UK 2007		AU 1998		AU 2007		NZ 1998		NZ 2007	
	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous	Top 50	Continuous
Reckitt Benckiser Group Plc					✓	✓								
Reed Elsevier Plc			✓		✓	✓								
Reed International Plc	✓													
Rentokil Initial Plc			✓											
Reuters Group Plc	✓	✓	✓	✓	✓	✓								
Rolls-Royce Plc		✓		✓	✓	✓								
Rothmans International Plc	✓	✓		✓										
Royal & Sun Alliance Insurance Plc			✓											
Royal Bank Of Scotland Group Plc (Formerly, Royal Bank Of Scotland Plc)		✓		✓	✓	✓								
Royal Dutch / Shell Petroleum Plc				✓										
Royal Dutch Shell Plc					✓	✓								
Royal Insurance Plc	✓													
SabMiller Plc					✓									
Sainsbury (J) Plc	✓	✓	✓	✓	✓	✓								
Scottish & South Energy Plc				✓										
Scottish Hydro-Electric Plc				✓										
Shell Transport & Trading Co Plc	✓	✓	✓	✓										
Shire Plc (Formerly, Shire Pharmaceuticals Group Plc)				✓	✓	✓								
SmithKline Beecham Plc	✓	✓	✓	✓										
South African Breweries Plc				✓										
Southern Electric Plc				✓										
Standard Chartered Plc	✓	✓	✓	✓	✓	✓								
Sun Alliance Plc	✓													
Tesco Plc	✓	✓	✓	✓	✓	✓								
TSB Plc	✓	✓												
Unilever Plc	✓	✓	✓	✓	✓	✓								
United Utilities Plc				✓	✓	✓								
Vodafone Group Plc			✓	✓	✓	✓								
Wellcome Plc	✓	✓												
WM Morrison Supermarkets Plc					✓									
Wpp Group Plc (Formerly, Wpp Plc)		✓		✓	✓	✓								
Xstrata Plc				✓	✓	✓								
Zeneca Plc (Formerly, Imperial Chemical Industries Plc)	✓	✓	✓	✓										

Appendix C: Examples of Remuneration Principles

Appendix C includes examples of remuneration principles found in codes of practice and corporate annual reports from the United Kingdom (UK), Australia (AU) and New Zealand (NZ). The remuneration principles studied include the human resources, market, fairness, agency, pay-for-performance, and motivation principles. This appendix includes one table of examples for each remuneration principle. Each table includes three columns and three rows: there are columns for codes, 1998 corporate annual reports and 2007 corporate annual reports; and there are rows for AU, NZ and the UK. Thus, there are nine cells in each table and within each cell there are three examples, except in fairness principle table as there are no examples for the 1998 corporate annual reports of AU and NZ. Keywords in the examples are presented in bold. The examples were randomly selected from the codes and corporate annual reports. However, there are no examples of remuneration principles for 1989 corporate annual reports from the UK. This is because there are few examples to select. Overall, Appendix C contains 156 examples of remuneration principles.

Table C.1: Examples of the Human Resources Principle

	Codes of Practice	Corporate Annual Reports – 1998	Corporate Annual Reports – 2007
AU	<p>“Executive share option schemes are supported as a method of...attracting quality management...” (AIMA, 1995, p. 25)</p> <p>“Executive incentive schemes are supported as a method of improving company performance through: Motivating and retaining key employees; Attracting quality management...” (AICD, 2000)</p> <p>“When setting the level and structure of remuneration, a company needs to balance its desire to attract and retain senior executives...” (ASX, 2007, p.35)</p>	<p>“The committee considers independent advice on policies and practices to attract, motivate and retain strong performers.” (CSR, 1998, p.31)</p> <p>“Attracting and retaining highly skilled people, through competitive remuneration and developmental opportunities, remained a priority during the reporting period.” (WMC, 1998, p.10)</p> <p>“Woodside offers competitive remuneration and benefits to attract people with the abilities to meet challenging performance standards.” (Woodside, 1998, p.52)</p>	<p>“Designed to attract and retain key talent in an increasingly globalised market, whilst at the same time aligning the interests of senior executives with those of shareholders.” (Telstra, 2007, p.87)</p> <p>“The Charter for the Remuneration Committee... requires that the Group adopt policies... to attract and retain key executives ...” (Westfield, 2007, p.101)</p> <p>“Our reward strategy provides a comprehensive framework aimed at attracting and retaining talented employees...” (Westpac, 2007, p.39)</p>
NZ	<p>“Remuneration is a critical consideration in attracting, retaining and motivating directors and executives.” (NZ Securities Commission, 2003a, p.15)</p> <p>“Adequate remuneration is necessary to attract, retain, and motivate high quality directors and executives.” (NZ Securities Commission, 2004, p.25)</p> <p>“Remuneration for directors should be set at levels designed to attract, motivate and retain the best people available.” (IOD, 2005, p.6)</p>	<p>“Baycorp directors are mindful of the need to retain and recognise key executives.” (Baycorp, 1998, p.9)</p> <p>“It remains the Remuneration Committee’s policy that remuneration and benefit levels should... attract, incentivise, reward and retain the directors.” (Guinness Peat, 1998, p.41)</p> <p>“The Board also believes that executive share plans encourage the attraction and retention of talented executives by rewarding participants for enhancing shareholder wealth.” (National Mutual, 1998, p.26)</p>	<p>“The company’s remuneration strategy aims to attract, retain and motivate high calibre employees...” (Fletcher Building, 2007, p.46)</p> <p>“...a remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders.” (Goodman Fielder, 2007, p.40)</p> <p>“The Scheme also assists the Company to attract, motivate and retain key executives in an environment where such executives are in high demand.” (Mainfreight, 2007, p.63)</p>
UK	<p>“The remuneration packages UK companies offer must, therefore, be sufficient to attract, retain and motivate Directors and managers of the highest quality.” (Greenbury, 1995, p.10)</p> <p>“Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully...” (FRC, 2003, p.12)</p> <p>“Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully...” (FRC, 2006, p.11)</p>	<p>“...the requirements of recruitment or retention may on occasion justify the payment of a salary outside the range regarded as appropriate to a particular position” (British American Tobacco, 1998, p.7)</p> <p>“The basic objectives of these policies are that executives... should receive compensation... which will attract, motivate and retain executives of the necessary calibre.” (Reuters, 1998, p.11)</p> <p>“The Committee’s objective is to set remuneration to attract and retain high calibre executives...” (Royal & Sun Alliance, 1998, p.38)</p>	<p>“Provide competitive rewards to attract, motivate and retain highly-skilled executives willing to work around the world” (BHP Billiton, 2007, p.162)</p> <p>“The Group’s remuneration policy is to ensure that ...cost effective packages are provided which attract and retain executive directors...” (Lloyds TSB, 2007, p.65)</p> <p>“Reed Elsevier aims to provide a total remuneration package that is able to attract and retain the best executive talent from anywhere in the world, at an appropriate level of cost.” (Reed Elsevier, 2007, p.53)</p>

Table C.2: Examples of the Market Principle

	Codes of Practice	Corporate Annual Reports – 1998	Corporate Annual Reports – 2007
AU	<p>“Remuneration as a whole must be reasonable and comparable with market standards, taking into account the responsibilities and commitment of the executive and the outcomes...” (AICD, 2000)</p> <p>“It should also advise whether the remuneration... is reasonable in comparison with industry benchmark.” (IFSA, 2004, p.23)</p> <p>“The executive’s remuneration as a whole should be reasonable and comparable with industry standards.” (AICD, 2007, p.4)</p>	<p>“...remuneration will be competitively set so that the Bank can seek to attract, motivate and retain high quality local and international executive staff...” (Commonwealth Bank, 1998, p.26)</p> <p>“The Board’s practice with respect to Director remuneration ...to remain competitive with the market, having regard to companies of similar size and complexity...” (Mayne Nickless, 1998, p.11)</p> <p>“In determining competitive remuneration rates, the committee seeks... advice on ...trends among comparative... companies.” (WMC, 1998, p.32)</p>	<p>“The Company’s remuneration policy is designed to be competitive and equitable...” (CSL, 2007, p.41)</p> <p>“This advice assists the Nomination & Remuneration Committee in making a determination of the remuneration levels that are appropriate for the Group, relative to the market in which it competes.” (Suncorp-Metway, 2007, p.136)</p> <p>“...the Group aims to set competitive rates of base salary.” (Westfield Group, 2007, p.102)</p>
NZ	<p>“The board should have a clear policy for setting remuneration of executives (including executive directors) and non-executive directors at levels that are fair and reasonable in a competitive market for the skills, knowledge and experience required by the entity.” (NZ Securities Commission, 2004, p.24)</p> <p>“Remuneration-setting procedures and criteria for senior executives should ensure adequate and defensible levels of salary and incentives, with a clear linkage both to market equivalents and company performance.” (IOD, 2005, p.6)</p>	<p>“...remuneration has been independently set by the Remuneration Committee in line with general market trends.” (Baycorp, 1998, p.9)</p> <p>“...recommending market-related remuneration for Group Managing Director...” (Colonial, 1998, p.31)</p> <p>“To add value for employees... by operating a competitive remuneration system that rewards employee contributions.” (TransAlta, 1998, p.26)</p>	<p>“...the Company has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.” (APN, 2007, p.27)</p> <p>“Staff are fairly and equitably remunerated relative to comparable positions...” (Auckland International Airport, 2007, p.81)</p> <p>“...the Company has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.” (Telecom, 2007, p.89)</p>
UK	<p>“Shareholders require that the remuneration of directors should be both fair and competitive.” (Cadbury, 1992, p.31)</p> <p>“They [Remuneration Committee] should be aware what other comparable companies are paying and should take account of relative performance” (Greenbury, 1995, p.16)</p> <p>“Consideration should be given to criteria which reflect the company’s performance relative to a group of comparator companies in some key variables such as total shareholder return.” (FRC, 2006, p.21)</p>	<p>“To achieve this the remuneration of senior team must be competitive within the food retailing industry...” (Asda, 1998, p.28)</p> <p>“Salaries are reviewed annually... taking into consideration inter alia such factors as ...salaries in comparable organisations and the general pay awards made to staff overall.” (Bank of Scotland, 1998, p.56)</p> <p>“The [Remuneration] committee aims to ensure that remuneration packages offered are competitive ...” (Bas, 1998, p.18)</p>	<p>“...executive compensation should... reflect the market trend...” (Associated British Foods, 2007, p.40)</p> <p>“The committee regularly reviews both the competitiveness of the Group’s remuneration structure and its effectiveness in incentivising executives to enhance value for shareholders over the longer term.” (Rolls-Royce, 2007, p.55)</p> <p>“Vodafone’s policy will be to provide executive directors with remuneration generally at levels that are competitive with the largest companies in Europe.” (Vodafone, 2007, p.78)</p>

Table C.3: Examples of the Fairness Principle

	Codes of Practice	Corporate Annual Reports – 1998	Corporate Annual Reports – 2007
AU	<p>“Transparency, accountability and fairness are essential in both designing incentive schemes and disclosing information to shareholders...” (AICD, 2000)</p> <p>“Transparency, accountability and fairness are essential principles that should guide companies when designing equity plans.” (ASA, 2007, p.4)</p> <p>“Principle 8: Remunerate fairly and responsibly ...Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.” (ASX, 2007, p.35)</p>		<p>“Principle 9: Remunerate fairly and responsibly.” (Fairfax Media, 2007, p.18)</p> <p>“Principle 8: Remunerate fairly and responsibly.” (Westfield Group, 2007, p.120)</p> <p>“9. Remunerate fairly and responsibly.” (Woolworths, 2007, p.69)</p>
NZ	<p>“The working group agrees that, when used excessively or inappropriately, share options can create unacceptable risks to corporate reporting.” (NZICA, 2003a, p.53)</p> <p>“The remuneration of directors and executives should be transparent, fair and reasonable.” (NZ Securities Commission, 2004, p.24)</p> <p>“Remunerate directors and management fairly and transparently.” (IOD, 2005, p.6)</p>		<p>“SKY has policies in place to ensure that it remunerates fairly and responsibly.” (Sky Network, 2007, p.70)</p> <p>“Fairly and reasonably reward executives having regard to the performance of the Company, the performance of the executives and the general pay environment.” (TrustPower, 2007, p.27)</p> <p>“...Westpac has remuneration policies that fairly and competitively reward executives...” (Westpac, 2007, p.39)</p>
UK	<p>“Shareholders require that the remuneration of directors should be both fair and competitive.” (Cadbury, 1992, p.31)</p> <p>“Remuneration committees should ensure that the total rewards available are not excessive.” (Greenbury, 1995, p.42)</p> <p>“The total rewards potentially available should not be excessive.” (Combined Code v3, 2006, p.21)</p>	<p>“...ensuring that senior executives... are rewarded fairly for their respective individual contributions to the Group’s performance.” (CGU, 1998, p.32)</p> <p>“The [Remuneration] Committee considers each element of the reward package to ensure that it remains relevant and stretching and that the overall reward package is not excessive.” (National Westminster Bank, 1998, p.66)</p> <p>“The [Remuneration] package should also: • be seen to be fair by comparison with the packages of other groups of employees within the Company.” (Zeneca, 1998, p.66)</p>	<p>“To provide a remuneration package that: • is fair and transparent.” (Bae Systems, 2007, p.66)</p> <p>“The package is designed to attract and retain high quality executives, induce loyalty and motivate them to achieve a high level of corporate performance in line with the best interests of shareholders, while not being excessive.” (Imperial Tobacco, 2007, p.49)</p> <p>“The Committee is satisfied that the overall remuneration structure is set at levels which are reasonable and appropriate.” (Scottish & South Energy, 2007, p.44)</p>

Table C.4: Examples of the Agency Principle

	Codes of Practice	Corporate Annual Reports – 1998	Corporate Annual Reports – 2007
AU	<p>“...remuneration packages should be designed to align the interests of executives with those of shareholders through direct equity participation...” (IFSA 3rd ed., 1999, p.25)</p> <p>“...remuneration committees should seriously consider whether... options are useful in achieving the required objective of aligning the interests of executives and shareholders, and if so how large the grant should be.” (ACID, 2003)</p> <p>“Equity plans serve to align the interests of executives with shareholders...” (AICD, 2007, p.5)</p>	<p>“We recognise the value in aligning management and shareholder interests ...” (Coca-Cola Amatil, 1998, p.7)</p> <p>“Directors are also provided with longer term incentive through option schemes, which act to align the Directors' actions with the interests of the shareholders.” (Harvey Norman, 1998, p.7)</p> <p>“...the Board strongly believes... shareholders will be better served by a remuneration structure which is more closely aligned with the interests of shareholders.” (Orica, 1998, p.8)</p>	<p>“The framework aligns executive reward with... the creation of value for shareholders...” (Fortescue Metals, 2007, p.26)</p> <p>“Achieving further alignment of management and security holder interest through fee and remuneration initiative.” (Macquarie Infrastructure, 2007, p.4)</p> <p>“The key principles of the Group’s Executive Remuneration Strategy are to: • Align with the interests of and create value for shareholders....” (St George, 2007, p.18)</p>
NZ	<p>“Share options are, however, a useful tool for aligning the interest of management and directors with those of shareholders.” (NZICA, 2003a, p.53)</p> <p>“This “conflict” can simply be avoided through... clear strategies of aligning shareholder interest with executive reward.” (NZSA, 2004)</p> <p>“Share ownership by directors can have the advantage of aligning remuneration with the interests of shareholders by increasing the focus of directors on company strategy, performance and share value over time.” (IOD, 2005, p.5)</p>	<p>“AMP’s compensation policy is intended to foster a high performance environment... and align the interest of employees with shareholders.” (AMP, 1998, p.32)</p> <p>“Introducing an objective remuneration system is a key component of this change because historically, management incentives have not been aligned to shareholder returns.” (Brierley, 1998, p.6)</p> <p>“The approach also aligns management interests with those of Shareholders.” (Guinness Peat, 1998, p.42)</p>	<p>“AMP Board’s approach to executive remuneration is to align remuneration with the creation of value for AMP shareholders.” (AMP, 2007, p.11)</p> <p>“With a performance-based component to its fee structure, the remuneration of GNZ is closely aligned with Unitholder returns.” (Goodman Property Trust, 2007, p.7)</p> <p>“The current management fee structure was introduced in April 1999. It was designed to align the interests of the manager and shareholders...” (Property for Industry, 2007, p.17)</p>
UK	<p>“The performance-related elements of remuneration should be designed to align the interest of Directors and shareholders and to give Directors keen incentive to perform at the highest levels.” (Greenbury, 1995, p.17)</p> <p>“The performance-related elements of remuneration... should be designed to align their [executives] interests with those of shareholders...” (FRC, 2003, p.12)</p> <p>“...remuneration ...should be designed to align their [executives] interests with those of shareholders...” (FRC, 2006, p.12)</p>	<p>“...remuneration arrangements... provide an incentive to executives and align performance and reward with the interests of shareholders.” (British Telecommunications, 1998, p.34)</p> <p>“CGU’s remuneration objectives are broadly the same for all employees... and reward superior performance in a manner which is consistent with the interest of shareholders.” (CGU, 1998, p.32)</p> <p>“...objectives: ... to align the interests of the directors with the shareholders of the parent companies.” (Reed International, 1998, p.43)</p>	<p>“The alignment of executive remuneration to the generation of shareholder value has been a strong and consistent theme...” (British American Tobacco, 2007, p.58)</p> <p>“The Remuneration Principles which the Committee has applied are: ...to provide alignment between achieving results for shareholders and the rewards for executives.” (Prudential, 2007, p.102)</p> <p>“...remuneration philosophy for senior executives is based on the following precepts: • Aligning the interests of executive directors with shareholders...” (Reed Elsevier, 2007, p.53)</p>

Table C.5: Examples of the Pay-for-Performance Principle

	Codes of Practice	Corporate Annual Reports – 1998	Corporate Annual Reports – 2007
AU	<p>“The incentive should be tied to the long-run performance goals of the firm...” (Hilmer, 1993, p.75)</p> <p>“Incentive schemes should... provide rewards for materially improved company performance.” (AICD, 2000)</p> <p>“Incentive schemes should be designed around appropriate performance benchmarks that measure relative performance and provide rewards for materially improved company performance.” (ASX, 2007, p.36)</p>	<p>“The remuneration of executive directors... comprises... a cash incentive based on annual performance measures...” (Comalco, 1998, p.23)</p> <p>“The Plan... provide[s] the economic entity’s key executives with incentive for performance linked to the Company’s share price...” (Normandy Mining, 1998, p.72)</p> <p>“Senior executives’ remuneration... is substantially influenced by incentive plans that reward executives for long term profitable growth of the economic entity.” (Westfarmers, 1998, p.59)</p>	<p>“...remuneration will incorporate... variable pay for performance elements, both short term and long term...” (Coca-Cola Amatil, 2007, p.18)</p> <p>“...executive remuneration is driven by Company... performance through the... short-term and long-term incentive programs. These components of remuneration are “at risk”...” (Santos, 2007, p.57)</p> <p>“Woolworths’ current remuneration structure is comprised of two components: • the variable or “at risk” component which is performance-based...” (Woolworths, 2007, p.45)</p>
NZ	<p>“Executive (including director) remuneration packages should include an element that is dependent on entity and individual performance.” (NZ Securities Commission, 2004, p.24)</p> <p>“The NZSA supports performance-based remuneration for CEOs.” (NZSA, 2004)</p> <p>“Align director and employee remuneration and incentives with company strategy and performance.” (IOD, 2005, p.5)</p>	<p>“The Executive [Share Option] Plan’s pricing formula allows participants to benefit only to the extent that the Company’s share price out-performs the NZSE-40 gross index after taking account of dividends paid.” (Air New Zealand, 1998, p.41)</p> <p>“Performance bonus payments are contingent on the achievement of agreed performance goals...” (ANZ, 1998, p.29)</p> <p>“To review and recommend to the Board: Chief Executive’s remuneration... to ensure that any bonus or incentive is linked to a performance appraisal...” (Goodman Fielder, 1998, p.30)</p>	<p>“Key executive remuneration comprises... an “at risk” component which is earned subject to company profitability.” (Hallensteins, 2007, p.40)</p> <p>“[Remuneration] Packages for senior managers include a cash bonus opportunity linked to Company performance in areas subject to the manager’s control.” (Nuplex, 2007, p.48)</p> <p>“The principles underlying our executive remuneration policy are: paying for performance, with rewards linked to achievements against both financial and non-financial targets.” (Westpac, 2007, p.40)</p>
UK	<p>“The key to encouraging enhanced performance by Directors lies in remuneration packages which: • link rewards to performance, by both company and individuals...” (Greenbury, 1995, p.11)</p> <p>“A significant proportion of executive directors’ remuneration should be structured so as to link rewards to corporate and individual performance.” (FRC, 2003, p.12)</p> <p>“...link rewards to corporate and individual performance.” (FRC, 2006, p.11)</p>	<p>“We shall continue to link performance to reward, performance being measured against the market.” (BP Amoco, 1998, p.4)</p> <p>“...this is achieved by means of an annual bonus and a long-term incentive plan directly related to the Company’s longer-term performance.” (Prudential Corporation, 1998, p.33)</p> <p>“...to set remuneration to attract and retain high calibre executives by offering above average levels of reward for consistently superior business performance.” (Royal & Sun Alliance, 1998, p.38)</p>	<p>“The Company’s remuneration strategy, policy and package for executive directors is: • Reward upper quartile performance with upper quartile reward.” (Bae Systems, 2007, p.66)</p> <p>“Remuneration policies continue to ...a significant proportion of the Executive Directors’ total reward should be performance based.” (National Grid, 2007, p.88)</p> <p>“...to align the interests ...through a variable performance-based compensation policy...” (Reckitt Benckiser, 2007, p.18)</p>

Table C.6: Examples of the Motivation Principle

	Codes of Practice	Corporate Annual Reports – 1998	Corporate Annual Reports – 2007
AU	<p>“One of the board’s performance-enhancing roles is to provide positive encouragement for management via the design of financial incentives.” (Hilmer, 1993, p.68)</p> <p>“This Guideline is not intended to restrict... the flexibility of companies to attract, retain and motivate employees...” (IFSA, 1999, p.26)</p> <p>“The company should design its remuneration policy in such a way that it: • motivates senior executives to pursue the long term growth and success of the company.” (ASX, 2007, p.35)</p>	<p>“The [Remuneration] committee considers... policies and practices to attract, motivate and retain strong performers.” (CSR, 1998, p.31)</p> <p>“It is the broad policy of the company that its remuneration structure will... attract, motivate and retain high calibre employees.” (Orica, 1998, p.38)</p> <p>“Senior Executives – Remuneration levels are competitively set to attract, retain and motivate appropriately qualified and experienced senior executives capable of discharging their respective responsibilities.” (Santos, 1998, p.40)</p>	<p>“The Board has adopted a remuneration policy... to ... motivate executives to achieve challenging performance levels.” (Brambles, 2007, p.58)</p> <p>“...remuneration will be competitively set to attract, motivate and retain top calibre executives.” (Coca-Cola Amatil, 2007, p.18)</p> <p>“Rio Tinto’s total rewards strategy is designed to attract, retain and motivate the skilled workforce essential to the success of our business.” (Rio Tinto, 2007, p.90)</p>
NZ	<p>“Share options, however, can be a useful mechanism for motivating senior staff to achieve top performance...” (NZICA, 2002, p.23)</p> <p>“Adequate remuneration is necessary to attract, retain, and motivate high quality directors and executives.” (NZ Securities Commission, 2004, p.25)</p> <p>“Remuneration for directors should be set at levels designed to attract, motivate and retain the best people available.” (IOD, 2005, p.6)</p>	<p>“The Group’s remuneration policy is to ensure that remuneration packages... are sufficient to attract, retain and motivate personnel...” (ANZ, 1998, p.29)</p> <p>“To encourage management... incentive compensation will be linked directly to the management team’s achievement of wealth creation targets.” (Brierley, 1998, p.6)</p> <p>“It remains the Remuneration Committee’s policy that remuneration and benefit levels should... attract, incentivise, reward and retain the directors.” (Guinness Peat, 1998, p.41)</p>	<p>“To prosper, the Company must attract, motivate and retain highly-skilled Directors and executives.” (Goodman Fielder, 2007, p.40)</p> <p>“The [Remuneration] Scheme also assists the Company to attract, motivate and retain key executives in an environment where such executives are in high demand.” (Mainfreight, 2007, p.63)</p> <p>“To grow and successful, Telecom must be able to attract, retain and motivate capable employees.” (Telecom, 2007, p.88)</p>
UK	<p>“The remuneration packages UK companies offer must, therefore, be sufficient to attract, retain and motivate Directors and managers of the highest quality.” (Greenbury, 1995, p.10)</p> <p>“Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully...” (FRC, 2003, p.12)</p> <p>“Levels of remuneration should be sufficient to attract, retain and motivate directors...” (FRC, 2006, p.11)</p>	<p>“The aim of the Board... is to maintain a policy which... will attract, retain and motivate executive directors of appropriate calibre.” (Abbey National, 1998, p.46)</p> <p>“The [Remuneration] Committee aims to adopt policies which enable the Group to attract, retain and motivate able Executive Directors and senior executives...” (National Grid, 1998, p.23)</p> <p>“The... executive remuneration policy aims to attract, retain and motivate high calibre senior executives through pay...” (Pearson, 1998, p.46)</p>	<p>“The Group aims to attract, motivate and retain high calibre executives by rewarding them with competitive... packages...” (Man, 2007, p.72)</p> <p>“Management, incentivised by the remuneration system, is delivering outstanding performance.” (Reckitt Benckiser, 2007, p.18)</p> <p>“The basic objective of the policy is that members of the executive committee should receive remuneration ...which will attract, motivate and retain individuals of the necessary calibre.” (Sabmiller, 2007, p.48)</p>

Appendix D: Institutionalising the Discourse on Executive Remuneration

Appendix D reproduces Crombie (2011), *Institutionalising the Discourse on Executive Remuneration*. This paper was presented at the British Accounting Association Annual Conference (21-23 April 2009), which was held in Dundee, Scotland. The paper was subject to blind peer review before being accepted for presentation at this conference.

The findings presented in the paper are similar to those in Chapter 5. At the time the paper was prepared, an institutional logics perspective had not been adopted. This means that the paper is underdeveloped compared to the discussion in Chapters 5 and 8 on the diffusion of institutional logics of corporate governance.

Further, the paper's terminology is different to that in the body of the thesis. In particular, the remuneration principles are termed remuneration logics. Also, there are ten remuneration logics. Six remuneration logics are the same as the remuneration principles that are introduced in Chapters 1 and 3. The remaining four remuneration logics were excluded after an institutional logics perspective was adopted. These included the achievement, appropriate, consultant and contribution logics. The achievement and contribution logics were excluded because they are almost identical to the pay-for-performance principle. The appropriate logic was excluded because it is not meaningful. It is an affirmation, e.g. the executive remuneration should be designed appropriately. But what is appropriate is not defined. The consultant logic was not included because it is not a remuneration principle per se, but a statement on whether or not companies do or should use remuneration consultants.

Finally, the paper presents statistics (e.g. industry and firm performance) that are not included in Chapter 5. As noted in Chapter 4, these findings were excluded because few statistically significant correlations were found. The paper's main finding was that most codes and corporate annual reports include many remuneration logics. This is consistent with the findings presented in Chapter 5.

**Institutionalising the Discourse of Executive Remuneration:
An Analysis of Corporate Governance Codes and Annual Reports
from Australia, New Zealand and the United Kingdom**

Neil Crombie (University of Canterbury)

The recurrent crisis in corporate governance has led to periodic reviews of corporate governance codes of best practice in most developed countries. These codes tend to recommend the same set of executive remuneration policies. The Cadbury and Greenbury reports issued in the UK in 1992 and 1995 respectively have been the most influential. This study finds that the language of the Cadbury and Greenbury reports have been perpetuated through subsequent regulations (e.g. codes of best practice) and companies' annual reports in Australia, New Zealand and the United Kingdom (UK). The language consists of phrases such as 'attract, motivate and retain', 'fair and competitive' and 'align interests' which collectively are supposed to explain or justify executive remuneration. These explanations of executive remuneration are consistent with notable academic theories such as human capital, market and agency theory.

This paper studies the influence of regulations on the disclosure in companies' annual reports in Australian, New Zealand and the UK. In comparing the disclosure of companies in their 1998 and 2007 annual reports, the content analysis reveals that the disclosure became homogeneous and consistent with the regulations in Australia and the UK, but not in New Zealand. As there are few regulations in New Zealand related to executive remuneration, it is not surprising that the amount of voluntary disclosure in New Zealand companies' annual reports has been minimal. These findings support institutional theory's notion of institutional isomorphism: Normative pressure transmitted the language (or discourse) of executive remuneration from academia to practice; Coercive pressure has compelled companies to adopt this language in their annual reports; Mimetic pressure has reinforced this pattern in disclosure.

The coercive pressure of regulation has been the most influential on companies' disclosure behaviour. Australian and UK regulations have adopted a 'comply or explain' approach to their corporate governance codes of best practice. As many directors' and executives' associations have been involved with the writing of these regulations, it is not surprising that

companies have willingly adopted the language within the regulations. While the explanations of executive remuneration within this language (or discourse) are individually compelling, as a set of explanations there are conflicts, inconsistencies and ambiguities. It has long been argued that one-size does not fit all, yet a ‘boilerplate’ approach to executive remuneration policy has emerged. The institutionalisation of the discourse of executive remuneration has been bad for practice because it provides boards of directors with a seemingly credible defence against challenges to their executive remuneration practices and has led to homogeneity in disclosure.

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1.0 Introduction

“I succumbed more than I should have to the two favourite siren songs of American CEOs. First, if your company has performed brilliantly, then you should pay your top people brilliantly. However, if your company has performed poorly, you can’t afford to make people suffer very much, because they will simply leave and go elsewhere; in other words, you have to keep good people. Simple logic, of course, mandates that there can be very few effective people at the top of a lousy-performing organization. But simple logic was apparently not my forte. As a result, I helped create the phenomenon we see today: huge and surging pay for good performance, and huge and surging pay for bad performance, too.” (Crystal, 1991, p.11)

In his book, *In Search of Excess*, Graef Crystal (1991) described how compensation consultants justified executive remuneration to boards of directors, shareholders and society. There are many logics used to justify executive remuneration which can be found in the press

releases and annual reports of companies (Zajac and Westphal, 1995), the corporate governance codes of best practice of countries (Point and Tyson, 2006) and the journal articles of academics (St-Onge et al., 2001). For example, the *agency logic* asserts that incentives are required to align the interests of executives with those of shareholders, whereas the *human resources logic* asserts that remuneration is needed to attract and retain scarce managerial talent (Zajac and Westphal, 2004). Legitimacy theory (Ashforth and Gibbs, 1990; Deegan, 2006) contends that these remuneration logics are used to confer legitimacy on organisations, particularly the boards of directors as they have to justify or explain their decisions to shareholders and society.

Logics consist of one or more statements designed to persuade, convince or influence the opinion of others. The logics used to justify executive remuneration (hereinafter, remuneration logics) can be classified as rhetoric (see Larson, 2004 for a review of rhetoric analysis). In the classical sense, an orator uses rhetoric to persuade the audience of the correctness of their argument. The focus of this study is on the rhetoric within texts rather than speeches. Corporate governance codes of best practice, commissioned reports on executive remuneration, hard regulation such as laws and soft regulation such as listing rules (hereinafter, regulations) contain remuneration logics designed to convince companies to adopt certain executive remuneration practices. Annual reports also contain remuneration logics designed to convince shareholders and society that the companies' executive remuneration practices are legitimate.

This research is concerned with how regulators and companies use remuneration logics to explain executive remuneration practices. Content analysis is used to examine the remuneration logics within texts from three countries, namely Australia, New Zealand and the UK. These countries are similar in many respects due to their historical economic and political ties. However, the amount of regulation and the size of the companies across these countries are quite different. Regulations published between 1991 and 2008 from these three countries are examined. Annual reports from the largest 50 listed companies in 1998 and 2007 from each of these three countries are also examined. The research traces the origins of the most prominent remuneration logics in these texts and the diffusion of these remuneration logics over time. Initially this research focused on the global financial crisis occurring in the early 2000s as exemplified by the Enron scandal and how the changes in subsequent regulations influenced the reporting behaviour of companies in Australia, New Zealand and

the UK. However, the scope of the research was expanded to include earlier regulations, particularly the influential Cadbury (1992) and Greenbury (1995) reports in the UK¹⁹⁹.

DiMaggio and Powell (1983, p.147) asked “What makes organizations so similar?” Their answer was institutional isomorphism in the form of three pressures: normative, coercive and mimetic. These pressures influence organisations, particularly when organisations undergo change. A financial crisis can be a catalyst for organisational change. Shareholders and others will often blame the boards of directors and executives of companies for the financial crisis as well as seeking out alternative ways thinking and organising. So existing logics may be discarded and replaced with new or previously unpopular logics. For example, the independence of directors and the separation of chair and CEO have increased in popularity due to the Enron scandal. Regulators (e.g. securities commission) will often commission reports into the causes of financial crises and issue new regulations to prevent reoccurrences. These regulations are likely to be entrenched in popular (normative) logics. In order to defend their legitimacy, companies may imitate other (successful) companies, adopt (changing) social norms or comply with (new) regulations.

Institutional theory asserts that organisations risk losing their legitimacy if they do not conform to isomorphic pressures. However, organisations “are also capable of responding to these influence attempts creatively and strategically” (Scott, 2008, p.178). Isomorphic pressures are not always homogeneous, do not necessarily change rapidly and are not outside the influence of organisational actors. For example, Sir Richard Greenbury was both the Chair and CEO of UK retailer Marks and Spencer and the Chair of a commissioned report on directors remuneration (Greenbury, 1995). Companies may be able to manipulate the public’s mood for change in their favour, which leads to the reinforcement of the status quo, rather than any meaningful changes. Similarly, companies may decouple the remuneration logics espoused in their annual reports from the underlying reality of their executive remuneration practices. While institutional theory asserts that organisations will conform, legitimacy theory asserts that there are many reasons why organisations may choose to conform (Deegan, 2006). Firstly, the conformity may be an illusion as the organisations have manipulated the isomorphic pressures so that they do not have to change. Secondly, the conformity may be

¹⁹⁹ While regulations are examined from 1991 to 2008, the annual reports of companies are only examined in 1998 and 2007 because of time constraints and unavailability of annual reports prior to 1995.

symbolic in that the organisation's outside appearance is decoupled from its underlying reality. Thirdly, the conformity may be substantive as the organisation changes its practices.

In comparing the disclosure of companies in their 1998 and 2007 annual reports, this study found that the amount of disclosure in the annual reports of New Zealand companies is much lower than that of Australian and UK companies as comparatively the New Zealand environment has been relatively devoid of regulations. The contents of the disclosure in the companies' annual report has converged over time and become increasingly consistent with the regulations. However, the high degree of homogeneity in the disclosure of companies limits its meaningfulness. Institutional theory explains these patterns: Normative pressure, such as academics advocating the merits of agency theory, has transmitted many of the remuneration logics from theory to practice; Coercive pressure in the form of homogeneous regulations have compelled companies to use a standard set of executive remuneration policies; Mimetic pressure as companies copy their peers has reinforced the standard set of executive remuneration policies. Consistent with legitimacy theory, companies have managed these isomorphic pressures by, for example, having their representatives on the committees which establish regulations. It has long been argued that one-size does not fit all, yet a "boilerplate" approach to executive remuneration policy has emerged.

This research contributes to institutional theory, legitimacy theory and discourse analysis. Studies in corporate governance have often not linked regulations with the reporting behaviour of companies (e.g. Aguilera and Cuervo-Cazurra, 2004; Enrione et al., 2006; Zattoni and Cuomo, 2008). Further, studies of executive remuneration policy have sought to determine the antecedents and effects of disclosure practices (e.g. Zajac and Westphal, 1995 and Wade et al., 1997), rather than the institutional causes for the change in reporting behaviour. Also, Phillips et al. (2004) expressed concern that discourse has not been adequately considered in studies of institutionalisation. These limitations are addressed in this research as it explains how regulations and the annual reports of companies have changed over time, particularly how they have responded to financial crises. Moreover, the comparative analysis of Australia, New Zealand and the UK shows how institutions and organisations in different environments respond to global events. Finally, this research shows how companies strategically manage isomorphic pressures (Oliver, 1991) and symbolically manage their legitimacy (Ashforth and Gibbs, 1990).

Instead of investigating the level of executive remuneration or the structure of executive remuneration, this research takes a novel approach by examining the remuneration logics used to justify executive remuneration practices in regulations between 1991 and 2008 as well as the 1998 and 2007 annual reports of companies in Australia, New Zealand and the UK. The paper is organised as follows. First, the most prominent remuneration logics within these texts are defined and discussed. Second, a model of the process of the institutionalisation of these remuneration logics is developed. The remaining sections include the research method, findings, discussion and conclusion.

2.0 Justifying Executive Remuneration Practices

A pilot study was undertaken to determine the breadth of logics used to justify executive remuneration practices. Several annual reports of companies in Australia, New Zealand and the UK were analysed. While many remuneration logics were identified, only the most popular remuneration logics were included in this research (see table 1).

--- Insert Table 1 here ---

The central premise of this research is that the remuneration logics used in practice are consistent with and perhaps derived from academic theories and philosophies. Academics have theorised about how academic theories influence practice (see Sturdy, 2004 for a review) as well as lamenting about the apparent gap between research and practice (Baldrige et al., 2004 and Tushman et al., 2007). Keynes (1936, p.383) argued that “Madmen [sic] in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.” He believed that the ideas of economists and philosophers have a greater influence on those in practice than the motive of self-interest. Barley et al.’s (1988) research challenges this idea as it found that academics altered their research to match practice, rather than practitioners²⁰⁰ altering their decisions to match theory. However, academic research has certainly influenced practitioners (Sturdy, 2004); for example, Porter’s (1980; 1985) competitive strategy and Jensen and Meckling’s (1976) agency theory have been highly influential in the academy and practice.

²⁰⁰ The term “practitioner” is used rather loosely here. It incorporates everyone who are not academics, e.g. policymakers, investors, directors, executives, etc.

In light of recent corporate scandals in the US (e.g. Enron and Worldcom) and elsewhere (e.g. HIH in Australia, Parmalat in Europe), academics have questioned whether academic theories and philosophies have been a positive or negative influence on business and society (Englander and Kaufman, 2003; Ghoshal, 2005; Osterloh and Frey, 2003; Frey and Osterloh, 2005). Ghoshal (2005, p.75) argues “Many of the worst excesses of recent management practices have their roots in a set of ideas that have emerged from business school academics over the last 30 years.” He is particularly critical of liberalism and agency theory. Further, there is growing concern that agency theory may be self-fulfilling in practice (Arce, 2007; Cohen and Holder-Webb, 2006; Ferraro et al, 2005; Cassidy, 2002; Madrick, 2003). That is, by acting on the assumption that individuals are self-interested, boards of directors may alter the behaviour of executives as the use of incentives may crowd-out executives’ sense of duty and crowd-in their sense of self-interest (Miller, 1999; Frey and Jegen, 2001).

Certainly, academics are engaged in training students who are/become practitioners and disseminating their research amongst other academics and practitioners. However, academics are also influenced by practice. Inductive methods rely on drawing theories from observation. Further, some academics were/are practitioners and vice-versa. This research does not assert that all theories of executive remuneration were formulated independently of practice, or that the remuneration logics contained within regulations and annual reports were exclusively drawn from academic theories. Drawing on institutional theory (Scott, 2008), this research proposes that the dissemination of academic theories and philosophies through discourse (e.g. education and publication) create normative pressures amongst practitioners. But these normative pressures may not be harmonious as academics may be disseminating competing theories (e.g. agency theory vs. stewardship theory, see Davis, et al. 1997). The following discussion tentatively relates the remuneration logics (examined in this research) to a variety of academic theories and philosophies.

The *human resources logic* (Zajac and Westphal, 1995; or *corporate logic*, Zajac and Westphal, 2004) argues that the level and form of executive remuneration must be sufficient to attract and retain high calibre managerial talent. This logic is consistent with a number of theories. Human capital theory asserts that the skill level of employees determines their remuneration (Becker, 1964). That is, offering above average pay will attract above average executives, assuming that the skill level of executives is observable. Similarly, managerialist theory (Chandler, 1962) and resource dependency theory (Pfeffer and Salancik, 1978) assert

that executives are a scarce and valuable resource which have unique knowledge and expertise, and it is necessary to pay executives

to retain their skills. While stewardship theory (Donaldson and Davis, 1991) also argues that executives are a resource to be retained, it contends that individuals are motivated by both extrinsic (e.g. money) and intrinsic rewards (Davis et al., 1997). However, the literature on the *human resources logic* is predominately concerned with extrinsic rewards (e.g. money). Thus, financial economists do believe that individuals motivated by money are also self-interested (Jensen et al, 2004).

Consistent with agency theory (Jensen and Meckling, 1976; Jensen, 1983), the *agency logic* is concerned with how to manipulate the self-interest of executives and align their interests with those of the shareholders. As shareholders cannot contract ex-ante for all eventualities and monitor executives without incurring considerable cost, incentives (e.g. share options) are believed to be the most efficient form of control over executives. As mentioned above, this may lead to a self-fulfilling prophecy as in the absence of incentives executives may not act self-interestedly (Miller, 1999; Ghoshal, 2005). The *agency logic* presents a caricature of the behaviour of individuals. It does not account for other motives such as sentiment, duty and excellence (Rocha and Ghoshal, 2006). Following the *agency logic* can lead executives to maximise short-term profit, rather than long-term shareholder value, as well as to ignore the interests of stakeholders²⁰¹. To overcome these problems, Jensen et al. (2005) argues that incentives should be designed so that executives consider stakeholders as the means to the end of shareholder value; that is, enlightened self-interest. However, the *agency logic* (as it is presented in practice) is silent on these issues and implicitly endorses narrow self-interest (e.g. short-termism).

The *pay-for-performance, contribution and achievement logics* are performance logics (Wade et al., 1997). They assert that executive remuneration schemes should link remuneration to performance. The *pay-for-performance logic* has its roots in scientific management (Taylor, 1911), which advocates that employees be rewarded for improvements in productivity. For executives, a variable pay philosophy means being rewarded for improvements in shareholder value (Anthony and Govindarajan, 1992). Individualism or meritocracy (Young, 1958) is the underlying assumption; that is, an executive can influence firm performance. Similarly, the

²⁰¹ While the term “stakeholders” normally includes shareholders, here they are treated as a separate group. Thus, stakeholders include employees, communities, customers, government, etc.

central proposition of the theory of the firm (Coase, 1937) is that “managers of an enterprise guide its activities in such a way as to maximize the monetary well-being of its owners” (Lewellen and Huntsman, 1970, p.710). This assumption is embodied in the *contribution logic*; that is, individuals should be rewarded for their contribution to firm performance. Also, the *achievement logic* emphasises the need to reward the achievement of specific performance objectives (e.g. strategic and financial). This echoes Locke’s (1967) goal-setting theory; that is, individuals find setting and having goals to be motivational. But as Bonner and Sprinkle (2002) point out, goals are most effective when linked to rewards.

The *market logic* asserts that there is a managerial labour market and market forces (of supply and demand) determine the level and form of remuneration in this market; that is, executives must be paid competitively. This logic is consistent with market theory (Smith, 1776; Milgrom and Roberts, 1992) as St-Onge et al. (2001, p.258) explains “The labor market is composed of firms and employees with no one having undue influence... All positions are open and filled in a competitive manner... Market forces determine compensation levels.” However, the managerial labour market may not be as efficient and effective as the *market logic* contends. Bebchuk and Fried (2003; 2006) argue that executives have captured the remuneration committees of companies. Khurana (2002; and Pick, 2005) argues that boards of directors do not act rationally when they hire new CEOs. Interlocking directorships mean that remuneration committees are unlikely to penalise CEOs without risking penalising themselves (Davis et al., 2003). Essentially, the invisible hand of the managerial labour market is really translucent and somewhat under the influence of CEOs.

The *fairness and appropriate logics* are seemingly similar as remuneration that is fair is also appropriate, but this is an over-simplification. The *fairness logic* is concerned with executive remuneration being fair, equitable, reasonable and not excessive. Consistent with equity theory (Adams, 1965), it contends that the distribution of remuneration among employees should be equitable. However, the evidence shows that the remuneration of CEOs is many times greater than employees (Mishel et al., 2007). Conversely, the *appropriate logic* argues that executive remuneration should be contingent on the firm’s circumstances and the level of the executive’s responsibility. This logic is consistent with contingency theory (Gomez-Mejia and Balkin, 1992; Barkema and Gomez-Mejia, 1998) and the managerial discretion hypothesis (Hambrick and Finkelstein, 1987). Thus, the *fairness and appropriate logics* are quite different.

Embodied in the *motivation logic* is the underlying assumption in most of the aforementioned logics that money motivates individuals to maximise their effort. Money is an effective motivator when short-term productivity is the goal (e.g. fruit picking). However, as expectancy theory explains, there are many factors that influence the effort of individuals (Vroom, 1964; Porter and Lawler, 1968). In determining how much effort to exert, individuals judge whether increased effort will

lead to increased performance, whether increased performance will lead to increased rewards and the desirability of the rewards offered (see Bonner and Sprinkle, 2002 for a review). The *motivation logic* presents a caricature of human behaviour. Individuals respond differently to the same incentives due to personalities and circumstances, and rate money as a motivator differently (see Furnham, 2005 for a review). Notably, executives tend to be well above the average in terms of wealth, which mitigates the effect of monetary incentives (Furnham, 2005).

The *consultant logic* suggests that external remuneration consultants should advise boards of directors (or remuneration committees) on the CEO remuneration packages in order to ensure objectivity. Since the Enron and Arthur Andersen scandal, corporate governance reforms have emphasised the need to have independent directors (Cosenza, 2007). Independent remuneration consultants are also advocated (Crystal, 1991). Agency theory also argues that remuneration consultants should be independent so that the remuneration committee's decisions are impartial (Eisenhardt, 1989). Legitimacy theory asserts that external verification of executive remuneration practices confers legitimacy on boards of directors (Wade et al., 1997). However, Crystal (1991) highlights that remuneration consultants are often hired by the CEO, or when hired by the board of directors, remuneration consultants will give favourable reviews of the CEO so that their consultancy firm is hired by the CEO to advice on remuneration for the whole company.

These remuneration logics are normative statements about how boards of directors should remunerate their executives. This leads to conflicts or inconsistencies when multiple remuneration logics are employed. For example, a CEO of a firm experiencing declining performance according to the *pay-for-performance logic* will receive declining pay, but the *market logic* may dictate that the CEO could earn more elsewhere so their pay should not decline and the *human resources logic* argues that a highly skilled CEO should be retained

and compensated accordingly. Indeed, CEO pay is more highly related to firm size than firm performance (Becht et al., 2007; Jensen et al., 2005; Murphy, 1999). There is also a conflict between the *fairness logic* and the other logics. For example, the *fairness logic* conflicts with the *agency logic* as it asserts that only executives and shareholders interests need to be aligned because employees are viewed as a resource to be exploited; the alternative view is stakeholder theory (Alam, 2006; Smith, 2003). It may be that the users of these remuneration logics (e.g. executives) are not concerned with potential inconsistencies because the remuneration logics are used as a discursive device to confer legitimacy, rather than a reflection of the users' personal beliefs (Wade et al., 1997).

The next section discusses how these remuneration logics may become institutionalised.

3.0 Institutionalisation: Crisis, Regulation and Reporting

Drawing on new institutional sociology, DiMaggio and Powell (1983) argue that institutional isomorphism in the form of normative, coercive and mimetic pressures influence organisations to change (see diagram 1). These pressures steer organisations towards common ideologies and adaptations. So as organisations change become they increasingly similar (Moll et al., 2006; Scott, 2008). Normative pressures are shared beliefs, values or expectations and are often shaped by academia, professions and consultants. For example, Ghoshal (2005) argues that business schools' advocacy and teaching of liberalism (e.g. agency theory) has lead to firms to widely adopt share options schemes. Coercive pressures are rules or laws and are often shaped by governments and their proxies (e.g. the UK's Financial Reporting Council). For example, Aguilera and Cuervo-Cazurra (2004) found that stock exchanges and governments have issued a number of corporate governance codes of best practice in the 1990s. Mimetic pressures are organisational adaptations that become widely used and are often shaped by organisations sharing knowledge (e.g. employees moving between firms) and making comparisons with other organisations (e.g. benchmarking; industry standards). For example, the organisational adaptations (e.g. total quality management) of financially successful companies are often copied by financially unsuccessful companies in order to improve financial performance (Heugens and Lander, 2007).

--- Insert Diagram 1 here ---

Normative, coercive and mimetic pressures are also subject to change. Institutions which shape these pressures are influenced by other institutions and organisations. Bringing about institutional isomorphism necessitates that one pressure dominates the other pressures or there is harmony between the pressures. For example, shareholder value maximisation is the dominant corporate objective, particularly in US companies despite the advocacy by many academics of stakeholder value maximisation (Smith, 2003; Jensen et al., 2005). Shareholder value maximisation cannot be deinstitutionalised while there is still much academic debate on which of shareholder theory and stakeholder theory is best (see Sundaram and Inkpen, 2004; Freeman et al., 2004).

Greenwood et al. (2002) described the stages of institutional change. Firstly, destabilising institutionalised practices requires “precipitating jolts”, which are events such as social upheaval, technological disruptions or regulatory change. Secondly, “deinstitutionalisation” occurs when new or existing actors “introduce new ideas and thus the possibility of change” (p.60). Thirdly, “pre-institutionalisation” occurs when “organisations innovate independently” (p.60) and this transforms new ideas into viable new practices. Fourthly, “theorization” about the new practices is required to pick a winner among the new practices. Actors theorise about what were the causes of organisational failure, how the new practices may overcome these causes and how the best of the new practices is morally or pragmatically superior to the others. Fifthly, “diffusion” of new best practice occurs as actors accept the theorised justifications and begin to objectify the new best practice. Sixthly, “re-institutionalisation” occurs when the new best practice becomes taken-for-granted and gains cognitive legitimacy, although some new best practices become fads and fashions and thus not fully institutionalised.

This research is concerned with discursive practices (i.e. the remuneration logics), rather than technical practices (e.g. total quality management). Phillips et al.’s (2004) discursive model of institutionalisation complements Greenwood et al.’s (2002) stages of institutional change. Phillips et al. (2004) note that institutions change through discourse as technical practices are embedded in discourse. As discourse is socially constructed from texts, they argue that new texts can alter discourse and changes in discourse lead to changes in institutions. Further, precipitating jolts can lead to the production of new texts which either defend the legitimacy of existing practice or advocate institutional change. For texts to become part of an

organisational field's discourse, the text must be fit with the other texts that constitute the discourse and must be diffused amongst a key group of actors.

The discourse of executive remuneration is embodied in regulations and companies' annual reports (i.e. texts). This research investigates how this discourse has changed over time. Aguilera and Cuervo-Cazurra (2004) and Enrione et al. (2006) found that precipitating jolts (e.g. financial crises or corporate scandals) lead to the production of new regulations. It is proposed that the new regulations will become part of the discourse if they are consistent with existing regulations. This will lead to greater coercive pressure on companies to conform to the recommendations of the regulations. However, companies may attempt to manage this coercive pressure by manipulating it or strategic managing their disclosure behaviour. To manipulate the coercive pressure, companies and their representatives may lobby the issuers of the regulations or they may be the issuers. To strategically manage the coercive pressure, companies may either symbolically or substantively comply with the regulations.

4.0 Method

This research investigates how remuneration logics are used to explain or justify executive remuneration practices in regulations and companies' annual reports. Drawing on institutional theory, the influence of the coercive pressure of regulation on companies' annual reports is examined. Drawing on legitimacy theory, the ability of companies and their actors (e.g. directors and executives) to manage this coercive pressure and their companies' legitimacy is also examined. Enrione et al. (2006) found that financial crises lead to new regulations, but they did not study how these regulations influenced companies' disclosure behaviour. This research examines how the changes in regulations in Australia, New Zealand and the UK influence the disclosure behaviour of each of their largest 50 listed companies. The changes in regulations pertaining to executive remuneration are examined from 1991 to 2008. The contents of the companies' annual reports in 1998 and 2007 are also examined. The focus of this research is the Chief Executive Officer (CEO) and the remuneration logics used to explain their remuneration. Content analysis is used to determine which remuneration logics are used, when they are used and how often.

4.1 The Sample

Initially all regulations related to corporate governance from New Zealand, Australia and the UK were identified and obtained. Textbooks (e.g. Du Plessis et al., 2005; Farrar, 2001;

Mallin, 2007; Solomon, 2007) and websites (e.g. the European Corporate Governance Institute's, http://www.ecgi.org/codes/all_codes.php) helped identify the relevant regulations. If available, electronic copies (e.g. pdf) of the regulations were obtained so that the texts could be easily searched. Hard copies of some regulations were also obtained. 98 texts were gathered and scrutinised. Texts were discarded if they were not related to executive remuneration (e.g. the Smith report (2003) on audit committees), except New Zealand's listing rules (issued in 1994, 1999 and 2003). These texts were included because the lack of guidance on executive remuneration in New Zealand is a significant finding and is highlighted by the New Zealand Stock Exchange's silence on the matter. In the end, 39 texts are included in the sample and these were issued between 1991 and 2008 (see table 2).

--- Insert Table 2 here ---

The sample of companies is not random. It includes the 50 largest companies in terms of market capitalisation that were listed on Australian Stock Exchange (ASX), New Zealand Stock Exchange (NZX) and the London Stock Exchange (FTSE) on 31 December 1998 and 2007. Market capitalisation information was obtained from newspapers (The Times, London; The Australian; National Business Review, New Zealand) and the websites of the stock exchanges. The largest 50 companies were selected because they are the most likely to disclose information about their executive remuneration policies and practices. As legitimacy theory contends, companies that are heavily publically scrutinised will use disclosure (e.g. in annual reports) to defend or legitimise their decisions (Ashforth and Gibbs, 1990; Deegan, 2006). And the largest companies are publically scrutinised more heavily, particularly their CEO pay, than the smallest companies (Ogden and Watson, 2008).

The annual reports for the 50 largest companies across three countries and two time periods were gathered. Electronic or hard copies were obtained from the companies' websites, Global Reports (www.global-reports.com), NZX Deep Archive Service and University libraries (including University of Canterbury, University of Sydney and Strathclyde University). As the 1998 and 2007 lists of companies are quite different and to allow intra-company comparisons, the 1998 annual reports of the companies on the 2007 list were also gathered²⁰². Thus, there are two samples (see table 3): firstly, the 'Top50' sample included 297 annuals

²⁰² The lists of companies included in the sample are available upon request from the author.

reports (only 3 are missing); secondly, the ‘Continuous’ sample included 293 annual reports (only 2 are missing). There are more companies on the 1998 continuous list than the 2007 continuous list because many companies merged in between periods and all of the pre-merger companies are included on the 1998 continuous list. For example, Astra AB (Sweden) merged with Zeneca Plc (UK) in 1999 to form AstraZeneca.

--- Insert Table 3 here ---

4.2 The Data

Descriptive data on the sampled companies were gathered from online sources (e.g. stock exchange websites) and their annual reports. The descriptive data included industry classification, location of the companies’ headquarters and countries in which the companies are listed, as well as market capitalisation, revenue, net profit after tax, total assets (opening and closing), net assets (opening and closing), dividend per share, return on assets (net profit after tax / average total assets), return on equity (net profit after tax / average equity) and debt-to-equity (total closing debt / total closing equity). The three stock exchanges used different industry classification schemes. These schemes were cross-coded against The Times’ industry classification scheme, and the data for the companies’ industry classification were recoded accordingly. Other descriptive data, such as share price and board characteristics, were excluded from the sample due to time and cost constraints.

Data on the companies’ executive remuneration practices were also excluded from the sample. The pilot study revealed that the CEOs of the largest companies in Australia, New Zealand and the UK have similar remuneration packages. Typically, the CEO’s remuneration package includes a salary, an annual (cash) bonus, share options and shares. The incentives are usually contingent upon strategic, financial and market performance objectives. However, the exact details of these performance measures are not always disclosed due to their commercially sensitive nature, particularly in New Zealand companies’ annual reports. Between 1998 and 2007, there did not appear to be much change in executive remuneration practices, although there was shift from share options to alternative equity based schemes (see Hall and Murphy, 2003). Since there would have most likely been limited variation between companies and over time in the executive remuneration practices employed, there would be no significant correlation with the remuneration logics employed. While some remuneration logics should be correlated with some executive remuneration practices (e.g. the *agency logic*

and share options), this research does not examine how companies' justify the adoption of executive remuneration practices (see Zajac and Westphal, 1995; Wade et al., 1997). Instead, this research is concerned with how the use of remuneration logics has changed over time, particularly in response to financial crises and new regulations.

The pilot study revealed 10 prominent remuneration logics. Content analysis was used to detect the presence or absence of these remuneration logics in the regulations and companies' annual reports (see Bryman and Bell, 2003, Chapter 9). Each of the remuneration logics were coded 1 (present) or 0 (absent) for each of the texts included in the sample. A coding instructions document was produced to ensure that the content analysis was reliable and repeatable. The instructions included definitions, examples and keywords associated with the remuneration logics (see tables 1 and 4).

--- Insert Table 4 here ---

The remuneration logics within the regulations and companies' annual reports were not always easily identified. Often significant portions of the texts had to be read and re-read, although electronic keyword searches increased the speed and accuracy of the process. In the companies' annual reports, the remuneration policies were usually located in the corporate governance statement, directors' report, or notes to the financial statements, but were occasionally located in other sections. When phrases related to the CEO and their remuneration were identified the phrases were scrutinised in order to determine whether or not the phrases embodied one or more remuneration logics. The coding instructions provided clear guidelines for coding these phrases as either present or absent. The data were recorded on coding sheets. To be coded as present, phrases needed to be related to one or more remuneration logics and related to the CEO. It was critical to determining the role of the CEO as some are the managing director and others are the chief executive. Further, some phrases (e.g. in the companies' remuneration policies) did not apply to the CEO but applied to, for example, non-executive directors or employees. Keyword searches revealed many different uses of the keywords (see table 4) which were not consistent with the corresponding remuneration logic. The phrases within the text were only coded as present if they were consistent with the remuneration logics.

All of the coding of the regulations and companies' annual reports was carried out by the author. To ensure that the coding was reliable and repeatable, the author recoded a sample of 4 regulations and 10 annual reports. Only a few errors were detected. The recoded data were almost identical to the original data. Further, two research assistants were employed to analyse the contents of 10 annual reports. The research assistants were post-graduate students. They were given an hour briefing on the coding process as well as the coding instructions to read after the briefing. Before they began coding, the author met with the research assistants to ensure that they understood the idiosyncrasies of the coding process. The coding sheets of the research assistants were compared with the author's coding sheets, and there was a high degree of similarity. However, one of the research assistants coded the *agency logic* as present many more times than the other two coders. A meeting with the research assistant revealed that she had misinterpreted the coding instructions. After this research assistant revised the coding of the *agency logic*, the three coders' data were almost identical.

4.3 Data Analysis

This research focused on identifying trends in the use of remuneration logics in regulations and companies' annual reports. The data were stored, sorted and analysed using Microsoft ExcelTM and SPSSTM. The analysis of the data was simplistic. The average and standard deviations were calculated for all of the variables. For the companies, differences between the groups (e.g. 1998 vs. 2007; listed in one vs. multiple countries; high vs. low users of remuneration logics) were tested and significance levels were scrutinised. Also, correlations between remuneration logics and the other variables were calculated and significance levels were scrutinised. Further, regression analyses between the remuneration logics (dependent variables) and the other variables such as return on assets (independent variables) were calculated and significance levels were scrutinised. However, much of data analysis yielded statistically insignificant results (e.g. the regression analyses) and these results are not included in the findings. Comparing the average use of remuneration logics in regulations and companies' annual reports between countries yields the most interesting and significant findings.

4.4 Limitations

There are three significant limitations of the method employed. Firstly, the time period studied for companies is limited by the availability of their annual reports. Companies'

websites and the Global Reports database do not include many annual reports prior to 1998. Also, the cost of obtaining photocopies of annual reports from overseas universities is prohibitively expensive. Future research could expand the time period under study to include companies' annual reports prior to early regulations such as the Bosch (1991) and Cadbury (1992) reports. Secondly, the sample was truncated as only the largest 50 companies were included. This non-random sample limits the analysis. It is assumed that firm size is related to disclosure behaviour, but this cannot be proved without expanding the sample. Thirdly, the number of variables studied is limited. The antecedents of remuneration logics require further investigation.

5.0 Findings

The findings are presented below. The descriptive statistics highlight the differences between the largest 50 companies in Australia, New Zealand and the UK. While there are significant size differences, the companies' performance across the three countries is comparable. The issuers of regulations and their motivation to issue new regulations are described. Consistent with other studies (e.g. Enrione et al., 2006) corporate scandals are the main motivator for creating new regulation. The content analysis of the regulations and annual reports reveals that the remuneration logics are used extensively in Australia and the UK, but not in New Zealand. Correlation analyses are presented on the relationships between the remuneration logics, and the relationships between remuneration logics and the financials of the companies. Also, differences between companies listed in one country and multiple countries are examined. These analyses highlight the influence of regulation and firm size on the use of remuneration logics.

5.1 Descriptive Statistics

The sampled companies operate in a wide variety of industries (see table 5). The banking and finance industry in all three countries contains the highest number of companies. The industry classification data reflects the idiosyncrasies of the three countries. However, there are few statistically significant correlations between industries and remuneration logics²⁰³.

--- Insert Table 5 here ---

²⁰³ The results of this analysis are not reported here.

The majority of the largest 50 companies listed on the ASX, NZX and FTSE in both 1998 and 2007 also have their headquarters in that country (see table 6). It is also common for the largest 50 companies to be listed on multiple stock exchanges (see table 7). While there are many dual listings of companies on the ASX and NZX, Australian companies are more likely to be in the NZX Top50 than New Zealand companies are to be in the ASX Top50. Many Australian and New Zealand companies are also listed on overseas stock exchanges, but few are large enough to be in the FTSE Top50. The Top50 on each stock exchange and in each time period can be divided into two groups fairly evenly: Companies listed on one stock exchange and companies listed on multiple stock exchanges, although UK companies have shifted towards multiple listings by 2007. It is likely that there are significant differences between these two groups as companies listed on multiple exchanges will face more regulatory and investor scrutiny than those listed on one exchange. The differences between these two groups are analysed later.

--- Insert Table 6 here ---

--- Insert Table 7 here ---

The financial statistics highlight while New Zealand's largest companies are much smaller than Australia's largest companies, both of these countries' largest companies are much smaller than the UK's largest companies (see table 8). The financial statistics are presented in the local currency, but the New Zealand dollar has the least value and the UK pound has the most value in both 1998 and 2007, which reinforces the size difference. The performance of Australia's, New Zealand's and the UK's largest companies is comparable, although the UK's largest companies are more highly leveraged than Australia's and New Zealand's which also distorts their return on equity. The performance of all companies in 2007 is much higher than in 1998, perhaps reflecting the effects of the Asian economic crisis (1997-1998) and the recent global economic boom (2002-2007). The relationship between the financial statistics and remuneration logics are discussed later.

--- Insert Table 8 here ---

5.2 The Issuers of Regulations and Their Motivation to Issue Regulation

Australian institutions have produced at least 18 regulations on executive remuneration between 1991 and 2007 (see table 9a and 9b). Du Plessis et al. (2005) suggests that the early

regulations, the Bosch (1991, 1993 and 1995) and Hilmer (1993 and 1998) reports, have been largely forgotten and overshadowed by subsequent developments. The Bosch reports were produced by collaboration between many institutions, whereas the Hilmer reports were produced by the Sydney Institute (a privately funded think tank). These reports were produced in response to “the excesses of the 1980s”, court decisions and overseas developments in corporate governance (e.g. Cadbury, 1992).

The Investment and Financial Services Association (IFSA, formerly AIMA) and the Australian Institute of Company Directors (AICD) have both periodically produced many reports on executive remuneration, usually in the form of corporate governance codes of best practice. These reports were motivated by a range of factors, particularly high profile corporate collapses and changes in Australia’s corporate law. Similarly, the Horwath (2002) report and Corporate Law Economic Reform Program (CLERP) Act (2004) were motivated by high profile corporate collapses. These include HIH, Harris Scarfe, Ansett and OneTel (see Du Plessis et al., 2005).

The issuers most involved in producing regulations are the professional associations (22%), the directors’ association (15%), the fund managers’ association (12%), the financial services association (12%), and the stock exchange (10%). However, the involvement of these issuers has been somewhat sporadic between 1991 and 2007. More recently, the stock exchange, the directors’ association and investors’ association have produced the most regulations. Given that corporate collapses are the most cited reason for producing regulations and that issuers are also related to the corporate collapses (e.g. directors), the issuers are acting to defend their legitimacy.

--- Insert Table 9a here ---

--- Insert Table 9b here ---

New Zealand institutions have not produced many regulations on executive remuneration and are typically produced by one issuer (see table 10). Table 10 overstates the number of regulations as the NZX’s (formerly, NZSE) three editions of listing rules do not include any recommendations of substance regarding executives’ remuneration. Except for the 2004 edition which states that “2.6 Every Issuer should have a formal and transparent method to recommend Director remuneration packages to shareholders. [And] 2.7 Directors are

encouraged to take a portion of their remuneration under a performance-based Equity Security compensation plan...” Further, the two reports of the NZ Securities Commission are part of the same report. Thus, New Zealand institutions only produced 7 regulations on executive remuneration between 1991 and 2007.

The New Zealand Institute of Chartered Accountants (NZICA) reports and the NZ Securities Commission report were motivated by the financial crisis of 2000-2002, particularly the Enron and Arthur Anderson debacle. NZICA was most certainly defending its legitimacy in its reports. For example, NZICA (2003a, p.1) stated that “The working group did not find any evidence of systematic reporting failure in New Zealand. Nor did time working group consider reporting failure of the magnitude found in the United States likely in New Zealand at this time.” These reports were part of NZICA’s strategy to reassure the public that the New Zealand companies were not affected by the financial crisis. But New Zealand has not been immune to corporate governance problems. For example, the partial re-nationalisation of Air New Zealand in 2001; the profit warnings of Vertex in 2002; the receivership of Feltex in 2006; the collapse of many finance companies in 2006, 2007 and 2008 (Stock, 2008).

--- Insert Table 10 here ---

UK institutions produced many regulations between 1991 and 2008, but only 9 are concerned with executive remuneration (see table 11). The early reports were motivated by corporate scandals and the perception that directors were overpaid, whereas the later reports were part of a periodic review process. The stock exchange (16%) and stock exchange regulator (26%) as well as professional associations have been involved in producing the majority of regulations. The Confederation of British Industry (CBI), a business association, has also been involved with two significant reports, Greenbury (1995) and Hampel (1998) which lead to the Combined Code. The Combined Code is significant as listed companies must comply with it or explain why they do not comply. It uses many of the remuneration logics. The CBI represents 200,000 British companies including 80% of the FTSE100 companies (www.cbi.org.uk). Thus, UK companies are self-governed in the sense that many of their directors have served on the committees which produced the regulations on executive remuneration.

--- Insert Table 11 here ---

The most common issuer of regulations in Australia, New Zealand and the UK are professional associations, which are predominately institutes of chartered accountants. Directors, executives and business associations have also been common issuers. Stock exchanges and their regulators have been common issuers in the UK, but not Australia and New Zealand. Further the majority of these regulations have been produced in response to both local and international corporate scandals. The issuers are defending their legitimacy by issuing regulations and manipulating the isomorphic pressures by setting the regulations which they must adhere to.

5.3 The Use of Remuneration Logics in Regulations and Annual Reports

Australia's Corporations Act 2001 and the UK's Directors' Remuneration Report Regulations 2002 both require companies to include a remuneration report in their annual report which explains their remuneration policies. However, the remuneration logics are almost absent from these regulations. Instead, the remuneration logics are found in the ASX's Principles of Good Corporate Governance and Best Practice Recommendations (2003 and 2007) and the Financial Reporting Council's (FRC) The Combined Code on Corporate Governance (1998, 2003, 2006 and 2008). For example, both codes include the *fairness logic* (ASX, 2007, p.35: "Remunerate fairly and responsibly"; FRC, 2006, p.21, "The total rewards potentially available should not be excessive."). However, both codes do not mandate that the remuneration logics within the codes must be included in companies' remuneration reports and both codes do not prescribe how these principles (in the form of remuneration logics) should be implemented in practice. Both countries have adopted a principles-based or a 'comply or explain' approach; that is, companies are free to design and explain their executive remuneration practices as they see fit, but they must disclose their executive remuneration policies and practices. New Zealand regulations are almost nonexistent in comparison to Australia and the UK.

Given the different regulatory environments in Australia, New Zealand and the UK, the use of remuneration logics in regulations is not surprising (see chart 1). In the UK, the Cadbury (1992) report contains 4 remuneration logics, the Greenbury (1995) report contains 9 and the Combined Code (1998) contains 7. All of the regulations in the UK contain multiple remuneration logics and there is an upward trend in the use of remuneration logics between 1991 and 2008. In Australia, the Bosch (1991; 1993; 1995) and Hilmer reports (1993; 1998)

averaged 2.2 remuneration logics, whereas the regulations produced by AICD, IFSA and ASX between 2000 and 2007 averaged 7.1 remuneration logics. The upward trend in the use of remuneration logics is more pronounced in Australia than in the UK. In New Zealand, the NZICA (2002; 2003a; 2003b) reports averaged 2.3 remuneration logics, the Securities Commission (2004) report included 6, and the NZ Shareholders' Association (2004) web-article included 4, and the Institute of Directors' (2005) code included 7. While chart 1 shows an upward trend in the use of remuneration logics for New Zealand, regulations in New Zealand did not include any remuneration logics until 2002.

--- Insert Chart 1 here ---

The same trends in the use of remuneration logics in regulations are found in the largest 50 companies' annual reports in Australia, New Zealand and the UK (see chart 2). Companies' annual reports contained on average the following remuneration logics: in the UK, 6.5 in 1998 and 8.2 in 2007; in Australia, 3.4 in 1998 and 8.7 in 2007; and in New Zealand, 0.9 in 1998 and 3.6 in 2007. Companies in all three countries experienced an upward trend in the average use of remuneration logics, particularly Australia. New Zealand lags behind Australia and the UK in the use of remuneration logics in both regulations and annual reports. In 1998, there is a clear gap between Australia and the UK, but in 2007, Australia and the UK are at comparable levels. However, whether the increased volume of disclosure has had any other benefits (e.g. increased stock market efficiency) is indeterminable.

--- Insert Chart 2 here ---

Each of the remuneration logics has increased in usage between 1998 and 2007 in both regulations and annual reports in all three countries (see table 12). Once a remuneration logic is included in a regulation or an annual report, subsequent editions of the regulation or annual report also include the remuneration logic; that is, it was rare for an issuer or a company to stop using a remuneration logic once it was adopted. For the remuneration logics used in the largest 50 companies' annual reports, the most used are the *pay-for-performance*, *market* and *human resources logics*, whereas the least used are the *appropriate*, *contribution* and *fairness logics*. While the *fairness logic* is used extensively in the regulations of all three countries, it rates consistently as the least used remuneration logic in the companies' annual reports in all three countries. The results show that companies favour those logics which justify increasing

remuneration; for example, the *market logic* implies that pay should be competitive and Jensen et al. (2005) points out that no one wants to have below average remuneration, so companies set their remuneration levels to be consistent with the upper quartile of comparable firms or increase the average by altering the comparator group.

--- Insert Table 12 here ---

The increase in the number of remuneration logics used per company is significant (see table 13). In Australia, in 1998 36% of companies used 0-2 remuneration logics and 6% used 8-10, whereas in 2007 0% used 0-2 and 80% used 8-10. In New Zealand, in 1998 81% of companies used 0-2 remuneration logics and 2% used 8-10, whereas in 2007 44% used 0-2 and 14% used 8-10. In the UK, in 1998 2% of companies used 0-2 remuneration logics and 29% used 8-10, whereas in 2007 2% used 0-2 and 72% used 8-10. The change in the use of remuneration logics between 1998 and 2007 is most pronounced amongst Australia companies with all companies using at least 6 remuneration logics. In 2007, UK companies had not adopted as many remuneration logics as Australian companies, but the two groups are not significantly different as only one UK company had less than 6 remuneration logics. The findings indicate that Australian and UK companies have responded to the financial crises and subsequent regulations by adopting the language of the regulations. After the Greenbury (1995) report was issued, a reporter for the Financial Times, Jim Kelly (1996, p.13) commented “Greenbury requires a statement of remuneration policy and E&Y found that the dreaded accountants’ disease – known as “boilerplate” – had taken hold. Time and time again, companies’ rewards policy was designed to “attract, retain and motivate”, a phrase hijacked from the Greenbury report itself.” The findings indicate that the “boilerplate” disease is a consequence of regulation. Variation in the executive remuneration policies of Australian and UK companies greatly diminished between 1998 and 2007.

--- Insert Table 13 here ---

Table 12 shows that the sample of Top50 and the sample of Continuous companies use the remuneration logics to the same extent; there are no statistically significant differences between these two groups. However, the sample of Continuous companies is eclectic as a result of mergers and acquisitions between 1998 and 2007. To determine whether stable companies change their remuneration policies, a sub-sample containing only those companies

which were continuously listed and that do not make any major acquisitions between 1998 and 2007 was constructed. The differences in means between 1998 and 2007 are analysed (see table 14). The findings show that stable continuously listed companies in all three countries used the remuneration logics to the same degree as less stable companies.

--- Insert Table 14 here ---

5.4 The Relationships between the Remuneration Logics

Zajac and Westphal (1995) found that there was a negative correlation between the use of the *agency* and *human resources logics* in US companies from 1976 and 1990. This research analyses the correlations between the remuneration logics below.

The correlations between remuneration logics for Australian companies in 1998 and 2007 reveals few statistically significant results (see tables 15 and 16). A number of the correlations are incalculable because some of the remuneration logics are used by no companies (the *fairness logic* in 1998) or all companies (the *pay-for-performance* and *market logics*). The results indicate that no statistically significant relationships between the remuneration logics persist over time, except for the correlation between the *human resources* and the *consultant logics* (0.364** in 1998 and 0.393** in 2007; ** $p < 0.01$). This result is consistent with Crystal's (1991) concerns that remuneration consultants are not independent, but favour the CEO. There are no statistically significant negative correlations.

--- Insert Table 15 here ---

--- Insert Table 16 here ---

The correlations between remuneration logics for New Zealand companies in 1998 and 2007 reveals many statistically significant results (see tables 17 and 18). Only the correlation between the *fairness logic* and the other remuneration logics in 1998 is incalculable as no companies use the *fairness logic*. 83% of the correlations in 1998 and 67% in 2007 are statistically significant, which is the most of the three countries. 63% of the correlations in 1998 persist in 2007. There are no negative correlations. Many of the correlations between the *fairness logic* and the other remuneration logics in 2007 are not statistically significant, except the *human resources* and *market logics*.

--- Insert Table 17 here ---

--- Insert Table 18 here ---

The correlations between remuneration logics for UK companies in 1998 and 2007 reveals very few statistically significant results (see tables 19 and 20). Only the correlation between the *market logic* and the other remuneration logics in 2007 is incalculable as all companies use the *market logic*. The results indicate that no statistically significant relationships between the remuneration logics persist over time. There are no statistically significant negative correlations.

--- Insert Table 19 here ---

--- Insert Table 20 here ---

The results from the correlations between remuneration logics highlight the difference between heavily regulated (Australia and the UK) and unregulated (New Zealand) countries. While regulations in Australia and the UK do not mandate that companies include the remuneration logics in their annual reports, the regulations may as well because the coercive pressure created by the regulations leads companies to adopt the remuneration logics. There are almost no statistically significant correlations between the remuneration logics amongst Australian and UK companies because the coercive (regulatory) pressure crowds-out any relationships that might have otherwise existed. Conversely, in the absence of regulation in New Zealand, there are many statistically significant relationships between remuneration logics and these generally persist over time. Amongst New Zealand companies, the relationships between the *human resources*, *contribution*, *achievement*, *market*, *appropriate* and *motivation logics* are the strongest and most persistent. Perhaps, in an unregulated environment, these companies which adopt these remuneration logics are more efficient than those that do not (this is investigated further below).

5.5 The Relationships between Remuneration Logics and the Financials

The correlations between remuneration logics and the financials for Australian companies in 1998 and 2007 reveal few statistically significant results (see tables 21 and 22). Correlations between the *fairness logic* and the financials in 1998 are incalculable as no companies use the *fairness logic*. Also, correlations between the *pay-for-performance* and *market logics* and the financial in 2007 are incalculable as all companies use these remuneration logics. Only 14%

of the correlations in 1998 and 6% of the correlations in 2007 are statistically significant. None of the statistically significant correlations persist over time. There are only two statistically significant negative correlations. The *consultant logic* is negatively correlated with both return on assets (-0.204 in 1998; -0.336* in 2007, $p < 0.05$) and return on equity (-0.023 in 1998; -0.322* in 2007, $p < 0.05$). Crystal (1991) argues that remuneration consultants work for the benefit of the CEO, rather than shareholders. These correlations support this premise as poor firm performance is related to using consultants to justify executive remuneration.

--- Insert Table 21 here ---

--- Insert Table 22 here ---

The correlations between remuneration logics and the financials for New Zealand companies in 1998 and 2007 reveals many statistically significant results (see tables 23 and 24). Correlations between the *fairness logic* and the financials in 1998 are incalculable as no companies use the *fairness logic*. 39% in 1998 and 71% in 2007 of the correlations are statistically significant, although 26% of the statistically significant correlations in 1998 have dissipated in 2007. The correlation between *net profit after tax* and the *agency logic* is negative in 1998 (-0.513***; $p < 0.001$), but is positive in 2007 (0.454**; $p < 0.01$); this result is yet to be explained. The *consultant logic* is negatively correlated with return on assets in 1998 (-0.310*; $p < 0.05$), but this statistically significant correlation dissipates in 2007. The relationship between the remuneration logics and firm performance is weak. A firm size effect explains the statistically significant correlations. Larger companies are more likely to disclose their remuneration policies because they have more resources available to prepare the annual report and they are more visible in the public eye (i.e. they need to legitimise their executive remuneration practices).

--- Insert Table 23 here ---

--- Insert Table 24 here ---

The correlations between remuneration logic and the financials for the UK companies in 1998 and 2007 reveals very few statistically significant results (see tables 25 and 26). Correlations between the *market logic* and the financials in 2007 are incalculable as all companies use the *market logic*. 8% in 1998 and 6% in 2007 of the correlations are statistically significant.

None of the statistically significant correlations in 1998 are also present in 2007. There are several statistically significant negative correlations. In 2007, the *consultant logic* is negatively correlated with return on assets (-0.312*, $p < 0.05$).

--- Insert Table 25 here ---

--- Insert Table 26 here ---

The results indicate that regulations crowd out any relationships between the remuneration logics and the financials of the companies. Regulation creates a coercive pressure and Australian and UK companies have responded by adopting the remuneration logics. In New Zealand's relatively unregulated environment, there is a stronger relationship between the use of remuneration logics and the financials of the companies. However, in Australia in 1998 there was also relatively limited regulation, yet there was not a strong relationship between the use of remuneration logics and the financials of the companies. Alternatively, the results indicate a size threshold effect. That is, when companies reach a certain size (e.g. by market capitalisation), they become more visible in the public eye and need to legitimise their executive remuneration practices. In New Zealand, the size of the largest 50 companies varies much more than in Australia and the UK. Thus, the statistically significant results are highlighting the difference between the large and small companies in New Zealand.

5.6 The Differences between Companies Listed in One Country and Multiple Countries

To further examine the size threshold effect, the differences between countries listed in one country and multiple countries are analysed (see table 27). The results show that there are few statistically significant differences between Australian and UK companies that are listed on one or more stock exchanges, although in 2007 the Australian companies listed on multiple stock exchanges are somewhat larger than those listed on one. Further, the results show that New Zealand companies listed on multiple stock exchanges have statistically significantly higher average use of the remuneration logics (6 out of 10 in 1998; 8 out of 10 in 2007). This highlights the coercive pressure created by country-specific regulations.

--- Insert Table 27 here ---

6.0 Discussion

Enrione et al. (2006) found that corporate scandals were the precipitating jolts that lead to the adoption of new corporate governance codes. However, the newness of these regulations and their influence on disclosure behaviour was not studied. This research found that new regulations in Australia, New Zealand and the UK did not contain new remuneration logics. Instead, the language of the Cadbury (1992) and Greenbury (1995) reports are embedded in subsequent regulations. There have been many precipitating jolts throughout the 1990s and 2000s, but they have not lead to the creation of new ideas and practices. The effect of the financial crises has been to entrench the existing discourse of executive remuneration in regulations and companies' annual reports.

The discourse of executive remuneration has been scantily studied. Previous research has found that companies use remuneration logics to legitimise their executive remuneration practices (Zajac and Westphal, 1995; Wade et al., 1997). This research found that the discourse of executive remuneration used in regulations is also used in companies' annual reports. The main reason for the homogeneity is that the issuers of the regulations are professional, directors' and business associations, which have an interest in producing company-friendly regulations. Consistent with legitimacy theory, Australian, New Zealand and UK companies bolster their legitimacy by seemingly conforming to coercive pressure.

A "boilerplate" approach to executive remuneration policy has emerged. Companies' annual reports use a plethora of remuneration logics to justify their executive remuneration practices. These remuneration logics are seemingly unchallengeable; for example, investors are unlikely to question an executive remuneration policy that is designed to align the CEOs interest to those of the investors. The remuneration logics are rhetoric designed to convince shareholders and other stakeholders of the efficacy of companies' executive remuneration policies. The findings show that the "boilerplate" has been increasingly entrenched in companies' annual reports over time. The "boilerplate" of remuneration logics is bad for practice (Ghoshal, 2005) as it crowds out variation.

Interestingly, the *fairness logic* which is included in many of the regulations is the least used remuneration logic. The *fairness logic* is, however, inherently ambiguous as fairness is not defined. It is not clear whether fairness is concerned with comparisons, for example, between CEOs and employees, or other criteria.

7.0 Conclusion

This research studied the use of remuneration logics in regulations and companies' annual reports in Australia, New Zealand and the UK. The findings indicated that new regulations are produced in response to financial crises and corporate scandals. Further, the issuers of these regulations include stock exchanges, stock exchange regulators, professional associations, directors' associations, business associations, fund managers' associations and investors' associations. These regulations often include remuneration logics, which originated in the Cadbury (1992) and Greenbury (1995) reports. UK companies' annual reports in 1998 and 2007 include to high degree these remuneration logics. While Australian regulations have adopted these remuneration logics, they were not extensive used until the early 2000s. Consequently, Australian companies' annual reports in 1998 did not include many remuneration logics, whereas in 2007 they included the same amount of remuneration logics as their UK counterparts. The UK and Australian regulations require companies to disclose their executive remuneration policies and have adopted a 'comply or explain' approach to their corporate governance codes of best practice. And generally UK and Australian companies will comply and have adopted the language of executive remuneration contained within the regulations.

In contrast, there have been few New Zealand regulations until recently and these regulations have not included many of the remuneration logics. Consequently, New Zealand companies do not disclose much information about their executive remuneration policies, although the information that is disclosed does include the remuneration logics. The findings suggest that in the absence of regulation, there is a size threshold for the disclosure of executive remuneration policies. That is, in New Zealand there is a strong correlation between firm size and the use of the remuneration logics. Also, New Zealand companies which are listed in multiple countries tend to disclose more than those listed in New Zealand only.

The executive remuneration policies of Australian and UK companies have become increasingly homogenous over time. The findings are consistent with institutional isomorphism, particularly coercive pressures. Firstly, normative pressure transmitted the discourse of executive remuneration from academia to practice. This is evidenced by the high degree of similarity between the remuneration logics used in regulations and companies' annuals reports, and the academic theories and philosophies related to executive

remuneration. Secondly, coercive pressure has compelled companies to adopt this discourse in their annual reports. This is evidenced by the leader-follower pattern as companies' disclosure in their annual reports has significantly increased after new regulations have been issued, but note that the regulations do not mandate that companies use the remuneration logics. Thirdly, mimetic pressure has reinforced this pattern in disclosure. This is evidenced by the time lag in companies adopting the remuneration logics. It takes several years after the regulations have been issued for the majority of companies to adopt the remuneration logics as some companies take a 'wait and see' approach.

The regulations do not mandate that companies use the remuneration logics, yet many companies in Australia, New Zealand and the UK do. The findings indicate that directors' associations, business associations and (to a lesser extent) executives' associations have had significant input into the production of the regulations on executive remuneration. Since these groups have had a degree of control over the regulation (i.e. the coercive pressure), it is not surprising that companies have adopted the language of the regulations. Thus companies have managed their legitimacy by quelling public anxiety about executive remuneration by complying with regulations and disclosing remuneration logics designed to convince the public (including shareholders) of the legitimacy of their executive remuneration practices.

Future research should investigate the companies' use of remuneration logics in more depth. Firstly, the relationship between firm and board characteristics, executive remuneration practices, the use of remuneration logics and firm performance should be investigated. In order to determine whether the use of remuneration logics is associated with increased efficiency and whether firms decouple their executive remuneration policies from their executive remuneration practices. Secondly, archival analyses which trace the adoption of remuneration logics in academic publications, regulations, news media publications and companies' annual reports will provide further evidence on how normative pressures develop and whether academia has significantly influenced the language of executive remuneration. Thirdly, interviews with executives, directors, investors and other institutional actors will provide evidence on whether the remuneration logics are entrenched in the beliefs of these actors. That is, are the remuneration logics confined to regulations and annual reports (symbolic meaning) or do these actors use the remuneration logics to justify their beliefs and decisions in practice (substance meaning).

References²⁰⁴

[Note: The references are included in the main reference list of the thesis]

²⁰⁴ References for the regulations and companies' annual reports included in this study are available upon request from the author.

Tables

Remuneration Logics	Explanations or Justifications	Related Theories and Philosophies
Human Resources	High performing executives are a scarce resource, which makes their remuneration more costly than other employees. Thus a high level of remuneration is necessary to attract and retain high calibre managerial talent.	Managerialist Theory (Chandler, 1962); Stewardship Theory (Donaldson and Davis, 1991); Resource Dependency Theory (Pfeffer and Salancik, 1978); Human Capital Theory (Becker, 1964)
Agency	Incentives are necessary to align the interests of the CEO with those of the shareholders.	Agency Theory (Jensen and Meckling, 1976; Jensen, 1983)
Pay for Performance	The remuneration of executives should rise and fall with firm performance.	Scientific Management (Taylor, 1911); Variable Pay Philosophy (Anthony and Govindarajan, 1992)
Contribution	Individuals should be rewarded for their contribution to firm performance.	Meritocracy (Young, 1958); Theory of the Firm (Coase, 1937; Baker, 1939; Lewellen and Huntsman, 1970)
Achievement	Individuals should be rewarded for the achievement of specific performance objectives.	Goal Setting Theory (Locke, 1968)
Market	Market forces (of supply and demand) determine the level and form of remuneration. As executives can move freely between companies, a competitive remuneration package is necessary.	Market Theory: Classical Economics and the Invisible Hand (Smith, 1776); Neoclassical Economics (Milgrom and Roberts, 1992)
Fairness	Executive remuneration should be fair, equity, reasonable and not excessive.	Equity Theory (Adams, 1965)
Appropriate	Executive remuneration should be appropriate given the firm's circumstances and the level of managerial responsibility.	Contingency Theory (Gomez-Mejia and Balkin, 1992; Barkema and Gomez-Mejia, 1998); Managerial Discretion Hypothesis (Hambrick and Finkelstein, 1987)
Motivation	Executives are most effectively motivated using monetary incentives.	Expectancy Theory (Vroom, 1964; Porter and Lawler, 1968)
Consultant	External remuneration consultants advise boards of directors in order to ensure objectivity when setting executive remuneration packages.	Legitimacy Theory (Wade et al., 1997); Agency Theory (Eisenhardt, 1989)

Table 1: The Logics Used to Justify Executive Remuneration Practices

Institutional Isomorphism

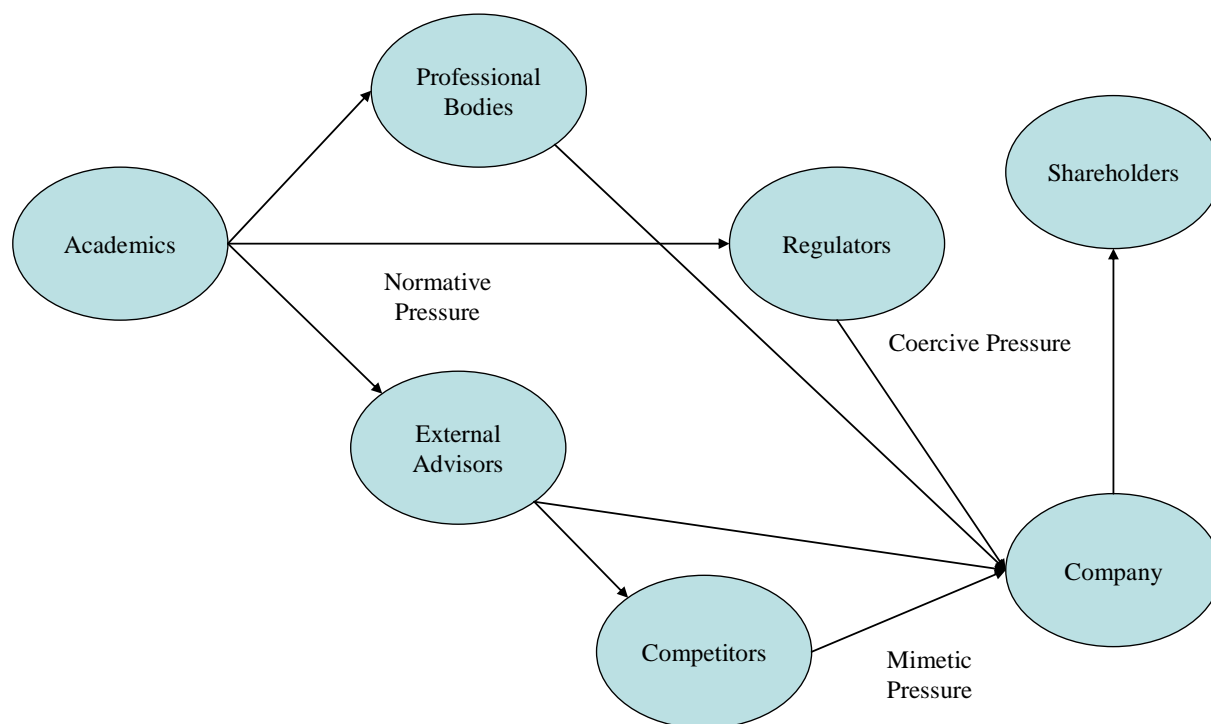


Diagram 1: The Institutional Landscape

Country	1991-1997	1998-2006	2007-2008	Total
Australia	5	11	2	18
New Zealand	1	10	0	11
United Kingdom	2	7	1	10
Total	8	28	3	39

Table 2: Number of Regulations in the Sample

Country	Top50-1998	Top50-2007	Continuous-1998	Continuous-2007
Australia	50	50	48	46
New Zealand	48	50	45	40
United Kingdom	49	50	65	49
Total	147	150	158	135

Table 3: Number of Annual Reports of Companies in the Sample

Institutional Logics of Corporate Governance and Discourse on Executive Remuneration

Remuneration Logics	Examples from Annual Reports	Examples from Regulations	Keywords
Human Resources	"The company's remuneration strategy aims to attract, retain and motivate high calibre employees..." (Fletcher Building Ltd, 2007, p.46)	"Boards and remuneration committees must have flexibility to offer the packages required to attract, retain and motivate people of the calibre and experience they need to make their companies successful" (Greenbury, 1995, para. 6.5)	Attract; retain; select; secure; or recruit
Agency	"The company believes this shareholding strengthens the alignment of senior executives with the interests of shareholders and puts their own remuneration at risk to long-term company performance." (Fletcher Building Ltd, 2007, p.49)	"A key concern should be to ensure, through the remuneration system, that Directors share the interest of shareholder in making the company successful." (Greenbury, 1995, para. 6.16)	Align or link; interests or rewards; and CEO and shareholders
Pay for Performance	"Remuneration will incorporate, to a significant degree, variable pay for performance elements, both short term and long term focussed..." (Commonwealth Bank of Australia, 1998, p.126)	"A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance." (Financial Reporting Council, 2006, para. B.1)	Pay for performance; performance based; variable; or at risk
Contribution	"...and where each is well rewarded for their contribution to the success of the business." (Sainsbury, 1998, p.i)	"If a part of executive directors' remuneration is related to entity performance over time, their efforts are more likely to be focused on making a contribution to future investor returns rather than only on short term gains" (New Zealand Securities Commission, 2004, p.25)	Contribute; influence; effort; merit; impact; or delivery
Achievement	"In 1998 the bonus scheme was structured such that the bonus payable was equal to 10% of basic salary for the achievement of budgeted EPS targets and 20% for the achievement of more stretching EPS targets." (British Aerospace, 1998, p.34)	"Schemes involving performance bonuses or profit-sharing can assist in the growth of shareholder value by focussing employees on the achievement of key short-term individual and collective goals." (New Zealand Institute of Directors, 2005, para. 3.8)	Achieve

Table 4a: Examples of and Keywords associated with the Remuneration Logics

Appendix D: Institutionalising the Discourse on Executive Remuneration

Remuneration Logics	Examples from Annual Reports	Examples from Regulations	Keywords
Market	“Executive Directors’ salaries are reviewed each year by the Committee and adjusted to reflect the performance and the competitiveness of salaries relative to the market.” (British Aerospace, 1998, p.34)	“Remuneration as a whole must be reasonable and comparable with market standards...” (Australian Institute of Company Directors, 2000, para. 5.2)	Competitive; market; comparable; or peers
Fairness	“For 2007, the Committee is looking at ways of operating the existing remuneration framework in line with the following key principles: ...and • reward performance on a fair and equitable basis.” (Sainsbury, 2007, p.37)	“Principle 8: Remunerate fairly and responsibly” (ASX, 2007, p.35)	Fair; reasonable; equitable; or not excessive
Appropriate	“Also, the Committee recognises the need to structure remuneration packages to incentivise and reward an appropriate balance between long and short term performance. (British Aerospace, 1998, p.32)	“Equity-based remuneration has limitations and can contribute to ‘short-termism’ on the part of senior executives. Accordingly, it is important to design appropriate schemes.” (ASX, 2007, p.36)	Appropriate
Motivation	“These enhancements aim to strengthen the motivation of executives to produce superior performance.” (Commonwealth Bank of Australia, 2007, p.52)	“Remuneration for directors should be set at levels designed to attract, motivate and retain the best people available.” (New Zealand Institute of Directors, 2005, para. 3.13)	Motivate or incentivise
Consultant	“Directors are satisfied that they have received independent advice that this constitutes an appropriate remuneration package for the role of chief executive officer.” (Fletcher Building Ltd, 2007, p.45)	“The committee may need to draw on outside advice. This should combine quality and judgement with independence.” (Greenbury, 1995, para. 4.17)	Independent or external; and consultants or advisors

Table 4b: Examples of and Keywords associated with the Remuneration Logics

Industries	Australia – 1998	Australia – 2007	New Zealand – 1998	New Zealand – 2007	United Kingdom – 1998	United Kingdom – 2007
Banking & Finance	9	11	6	5	14	11
Investment Companies	2	2	5	4	0	0
Construction & Property	5	5	5	8	0	1
Consumer Goods	5	3	5	2	5	7
Engineering	1	0	0	4	3	2
Health	1	1	1	3	2	2
Industrials	5	5	1	0	1	0
Leisure	2	2	2	2	1	0
Media	2	2	3	2	5	5
Natural Resources	9	6	5	4	3	5
Professional & Support Services	1	2	0	0	1	0
Retailing	5	3	3	4	6	6
Technology	0	0	0	1	0	0
Telecoms	1	2	2	2	5	1
Transport	1	5	6	5	2	1
Utilities	1	1	6	4	1	4

Table 5: Industry Classification of Largest 50 Companies²⁰⁵

Headquarters	Australia – 1998	Australia – 2007	New Zealand – 1998	New Zealand – 2007	United Kingdom – 1998	United Kingdom – 2007
Australia	47	46	5	7	0	1
New Zealand	2	1	44	41	0	0
United Kingdom	0	0	1	1	47	47
Other	1	3	0	1	2	2

Table 6: Location of Headquarters of Largest 50 Companies

²⁰⁵ While most companies do not operate exclusively in one industry, companies were classified into the industry in which the majority of their revenue is earned.

Appendix D: Institutionalising the Discourse on Executive Remuneration

Countries Listed	Australia – 1998	Australia – 2007	New Zealand – 1998	New Zealand – 2007	United Kingdom – 1998	United Kingdom – 2007
New Zealand	0	0	34	30	0	0
New Zealand and Australia	8	6	9	16	0	0
New Zealand and Others	0	0	4	3	0	0
New Zealand, Australia and UK	0	0	3	1	0	0
Australia	21	31	0	0	0	0
Australia and UK	1	1	0	0	0	0
Australia and Others	20	12	0	0	0	0
UK	0	0	0	0	21	10
UK and Others	0	0	0	0	28	40

Table 7: Countries in which Largest 50 Companies are Listed

Financials	Australia – 1998	Australia – 2007	New Zealand – 1998	New Zealand – 2007	United Kingdom – 1998	United Kingdom – 2007
	<i>AU\$/US\$</i>	<i>AU\$/US\$</i>	<i>NZ\$/US\$</i>	<i>NZ\$/US\$</i>	<i>UK£/US\$</i>	<i>UK£/US\$</i>
Exchange Rate on 31 December	0.612	0.878	0.527	0.768	1.663	1.984
	<i>AU\$ (000,000)</i>	<i>AU\$ (000,000)</i>	<i>NZ\$ (000,000)</i>	<i>NZ\$ (000,000)</i>	<i>UK£ (000,000)</i>	<i>UK£ (000,000)</i>
Market Capitalisation	7,916 ²⁰⁶ (9,088) ²⁰⁷	23,661 (25,146)	2,842 (7,125)	5,326 (13,358)	19,119 (20,098)	27,847 (29,163)
Revenue	5,975 (6,852)	11,842 (13,972)	2,337 (5,660)	2,628 (6,430)	9,958 (9,524)	22,902 (33,322)
Net Profit after Tax	394 (604)	1,691 (2,548)	125 (575)	414 (1,063)	711 (572)	2,227 (3,222)
Total Assets	22,601 (45,069)	54,184 (109,239)	8,913 (29,784)	20,171 (78,825)	42,522 (65,831)	129,845 (303,381)
Net Assets	4,065 (4,822)	7,959 (9,000)	1,672 (3,566)	1,896 (4,642)	5,716 (12,176)	12,186 (18,457)
	<i>AU\$</i>	<i>AU\$</i>	<i>NZ\$</i>	<i>NZ\$</i>	<i>UK£</i>	<i>UK£</i>
Dividend per Share	0.31 (0.26)	0.75 (0.67)	0.17 (0.13)	0.24 (0.30)	0.19 (0.13)	0.29 (0.22)
	<i>Ratio</i>	<i>Ratio</i>	<i>Ratio</i>	<i>Ratio</i>	<i>Ratio</i>	<i>Ratio</i>
Return on Assets	4.50% (3.77%)	7.97% (7.91%)	5.78% (6.59%)	8.91% (8.15%)	6.84% (6.84%)	8.10% (7.02%)
Return on Equity	10.99% (7.93%)	22.40% (19.89%)	10.19% (14.06%)	19.83% (20.31%)	23.90% (29.11%)	40.01% (83.87)
Debt-to-equity	3.18 (4.74)	4.96 (8.86)	2.01 (3.94)	2.90 (8.04)	7.38 (10.19)	8.77 (15.26)

Table 8: Financial Statistics of Largest 50 Companies

²⁰⁶ The first number in each box is the average.

²⁰⁷ The second number (in parentheses) in each box is the standard deviation.

Institutional Logics of Corporate Governance and Discourse on Executive Remuneration

Regulations	Year Issued	Stock Exchange	Stock Exchange Regulator	Government Department	Directors' Association	Executives' Association	Professional Association	Fund Managers' Association	Financial Services Association	Investors Association	Employees' Association	Business Association	Academics (University)	Other	Total	Motivation
Australia																
Bosch Report (1 st ed.)	1991	1			1	1	3		2						8	Excesses of the 1980s.
Bosch Report (2 nd ed.)	1993	1			1	1	3	1	2						9	Excesses of the 1980s; Influence of Cadbury & US Business Roundtable reports; Australian court decisions.
Hilmer Report (1 st ed.)	1993													1	1	Aftermath of the AWA Case; Excesses of the 1980s; New management theories; Developments in UK.
Bosch Report (3 rd ed.)	1995				1	1	3		1						6	New listing rules & laws; Australian court decisions; Overseas developments in corporate governance, e.g. General Motors guideline (1992), Cadbury report (1992), Hong Kong code (1995), etc; Influence of institutional investors.
AIMA (1 st ed.)	1995							1							1	---
Hilmer Report (2 nd ed.)	1998													1	1	Aftermath of the AWA case; Excesses of the 1980s; Overseas developments in corporate governance, particularly UK.
IFSA (3 rd ed.)	1999							1							1	Influence of fund managers; The Hoare Panel (1994); OECD principles.

Table 9a: Issuers of Regulations in Australia and Their Stated Motivation (2000-2007)²⁰⁸

²⁰⁸ The bolded number indicates the main issuer of the regulation.

Appendix D: Institutionalising the Discourse on Executive Remuneration

Regulations	Year Issued	Stock Exchange	Stock Exchange Regulator	Government Department	Directors' Association	Executives' Association	Professional Association	Fund Managers' Association	Financial Services Association	Investors Association	Employees' Association	Business Association	Academics (University)	Other	Total	Motivation
AICD on ESOS	2001				1										1	Corporations Act 2001.
Corporations Act	2001			1											1	Doubts about the enforceability of the old Corporations Law.
IFSA (4th ed.)	2002							1							1	Excesses of 1980s and recent high profile collapses
Horwath Report	2002												1	1	2	Recent collapses, e.g. HIH, Harris Scarfe, Ansett and OneTel.; US Blue Ribbon Committee Report (1999)
ASX Principles (1st ed.)	2003	1													1	---
AICD on Executives	2003				1										1	Corporations Act and new ASX listing rules.
ASA on Executive Pay	2004									1					1	Concern over growth in executive pay levels and relationship to performance.
CLERP Act	2004			1											1	High profile corporate collapses; Aim to restore confidence to the market.
IFSA (5th ed.)	2004							1							1	Excesses of the 1980s; CLERP 2004.
AICD on Executive Incentives	2007				1					1		1			3	Periodic review of policies
ASX Principles (2nd ed.)	2007	1													1	---
Proportional Involvement (1991-2007)		10%	0%	5%	15%	7%	22%	12%	12%	5%	0%	2%	2%	7%		

Table 9b: Issuers of Regulations in Australia and Their Stated Motivation (2000-2007)

Institutional Logics of Corporate Governance and Discourse on Executive Remuneration

Regulations	Year Issued	Stock Exchange	Stock Exchange Regulator	Government Department	Directors' Association	Executives' Association	Professional Association	Fund Managers' Association	Financial Services Association	Investors Association	Employees' Association	Business Association	Academics (University)	Other	Total	Motivation
New Zealand																
NZSE Listing Rules (1st ed.)	1994	1													1	---
NZSE Listing Rules (2nd ed.)	1999	1													1	---
NZICA on Transparency	2002						1								1	Response to US corporate governance and auditing crisis, e.g. Enron and Arthur Andersen
NZICA on Reporting	2003						1								1	Response to US accounting scandals, e.g. Enron and WorldCom
NZICA on Corporate Governance	2003						1								1	NZICA on Reporting (2003); US crisis & Sarbanes-Oxley Act (2002); OECD principles.
NZX Listing Rules (3rd ed.)	2003	1													1	---
NZ Securities Commission - Background & Consultant	2003		1												1	Initiated by Minister of Commerce; Draws on local bodies work (e.g. NZICA) and international practice (e.g. OECD); US corporate governance crisis.
NZ Securities Commission - Principles	2004		1												1	Initiated by Minister of Commerce; Draws on local bodies work (e.g. NZICA) and international practice (e.g. OECD); US corporate governance crisis.
NZSA on CEO Pay	2004									1					1	Shareholder disquiet
IOD's Code	2005				1										1	---
<i>Proportional Involvement</i>		30%	20%	0%	10%	0%	30%	0%	0%	10%	0%	0%	0%	0%		

Table 10: Issuers of Regulations in New Zealand and Their Stated Motivation

Appendix D: Institutionalising the Discourse on Executive Remuneration

Regulations	Year Issued	Stock Exchange	Stock Exchange Regulator	Government Department	Directors' Association	Executives' Association	Professional Association	Fund Managers' Association	Financial Services Association	Investors Association	Employees' Association	Business Association	Academics (University)	Other	Total	Motivation
United Kingdom																
Cadbury Report	1992	1	1				1								3	Corporate scandals, e.g. BCCI & Maxwell; Societal perception that directors are overpaid; Harsh economic climate.
Greenbury Report	1995											1			1	Perception that directors received too many share options when utilities were privatised; Golden handshakes; Perception that no one is accountability for directors' remuneration.
Hampel	1998	1			1		1	1	1			1			6	Cadbury (1992) & Greenbury (1995) reports; Corporate scandals.
Combined Code (1st ed.)	1998		1												1	Hampel report (1998).
CIMA Report	2001						1								1	Cadbury (1992), Greenbury (1995) and Hampel (1998) reports.
Combined Code (2nd ed.)	2003		1												1	Higgs (2003) and Smith (2003) reports.
Deloitte Report (2004)	2004			1										1	2	Report requested by Department of Trade & Industry.
Combined Code (3rd ed.)	2006		1												1	Biennial review by Financial Reporting Council.
Combined Code (4th ed.)	2008	1	1				1								3	Biennial review by Financial Reporting Council.
<i>Proportional Involvement</i>		16%	26%	5%	5%	0%	21%	5%	5%	0%	0%	11%	0%	5%		

Table 11: Issuers of Regulations in the UK and Their Stated Motivation

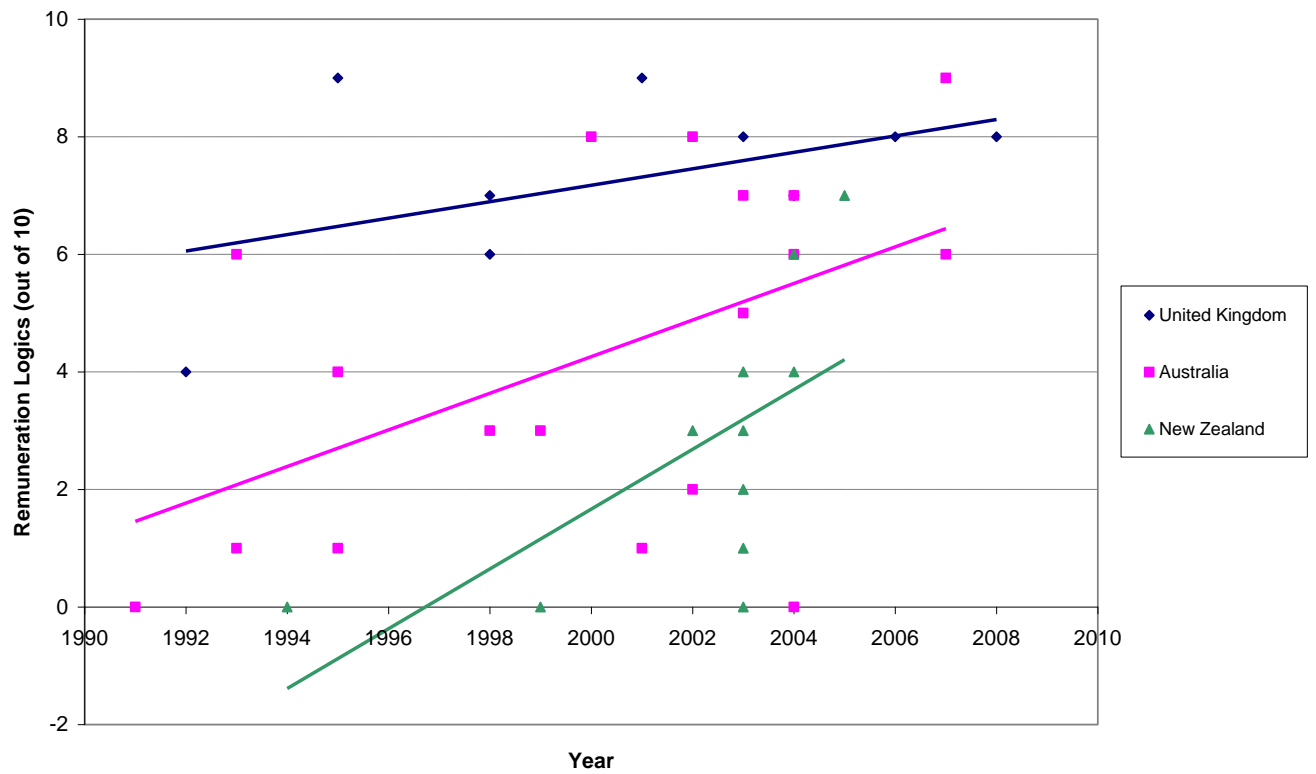


Chart 1: Number of Remuneration Logics in Regulations

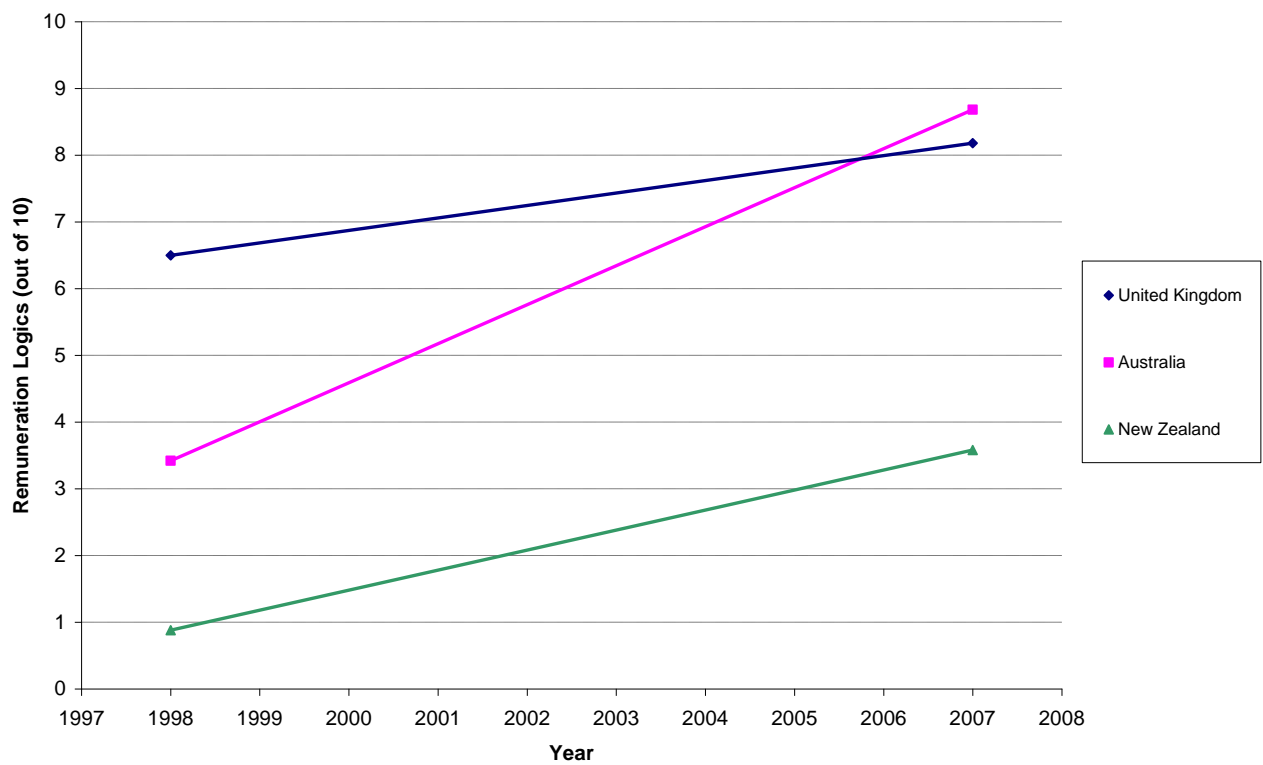


Chart 2: Number of Remuneration Logics in Annual Reports of Companies

Appendix D: Institutionalising the Discourse on Executive Remuneration

	# of Texts	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant	Total
UK												
Top50-2007	50	0.96	0.88	0.96	0.44	0.92	1.00	0.36	0.80	0.90	0.96	8.18
Top50-1998	48	0.90	0.67	0.96	0.27	0.77	0.92	0.14	0.50	0.84	0.69	6.50
Continuous-2007	49	0.96	0.88	0.96	0.43	0.92	1.00	0.37	0.82	0.90	0.96	8.18
Continuous-1998	65	0.78	0.62	0.89	0.22	0.52	0.88	0.14	0.43	0.74	0.66	5.88
Regulation-1998to2007	8	1.00	0.86	1.00	0.14	0.43	1.00	0.71	0.71	0.86	0.71	7.43
Regulation-Pre1998	2	0.50	0.50	1.00	0.50	0.00	1.00	1.00	0.50	0.50	1.00	6.50
Australia												
Top50-2007	50	0.92	0.90	1.00	0.72	0.90	1.00	0.66	0.88	0.80	0.90	8.68
Top50-1998	50	0.52	0.22	0.56	0.12	0.22	0.60	0.00	0.18	0.36	0.64	3.42
Continuous-2007	46	0.93	0.89	1.00	0.74	0.91	1.00	0.63	0.89	0.80	0.91	8.72
Continuous-1998	48	0.46	0.21	0.58	0.10	0.25	0.56	0.00	0.23	0.33	0.54	3.27
Regulation-1998to2007	5	0.69	0.62	0.69	0.31	0.08	0.54	0.69	0.46	0.69	0.23	5.00
Regulation-Pre1998	13	0.40	0.20	0.40	0.00	0.00	0.00	0.20	0.80	0.40	0.00	2.40
New Zealand												
Top50-2007	50	0.54	0.34	0.66	0.22	0.32	0.38	0.22	0.30	0.32	0.28	3.58
Top50-1998	49	0.13	0.06	0.23	0.08	0.13	0.13	0.00	0.04	0.06	0.06	0.88
Continuous-2007	40	0.60	0.38	0.68	0.28	0.40	0.43	0.25	0.38	0.35	0.35	4.08
Continuous-1998	45	0.11	0.11	0.29	0.09	0.16	0.09	0.00	0.09	0.09	0.11	1.13
Regulation-1998to2007	10	0.30	0.50	0.50	0.10	0.10	0.20	0.40	0.50	0.40	0.00	3.00
Regulation-Pre1998	1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Table 12: Average Use of Remuneration Logics in the Annual Reports of Companies and Regulations

Number of Remuneration Logics	Australia – 1998	Australia – 2007	New Zealand – 1998	New Zealand – 2007	United Kingdom – 1998	United Kingdom – 2007
0	9	0	35	7	1	0
1	5	0	3	8	0	0
2	4	0	2	7	0	1
3	7	0	2	5	1	0
4	8	0	3	7	2	0
5	5	0	2	5	10	0
6	8	5	0	1	10	2
7	1	5	0	3	12	11
8	1	7	0	3	8	16
9	2	17	1	2	4	13
10	0	16	0	2	2	7
Total	50	50	48	50	49	50

Table 13: Number of Remuneration Logics per Company for Largest 50 Companies

	Australia			New Zealand			United Kingdom		
	1998	2007	Sig.	1998	2007	Sig.	1998	2007	Sig.
Human Resources	0.500	0.929	***	0.108	0.622	***	0.871	0.936	
Agency	0.238	0.905	***	0.135	0.405	**	0.613	0.839	*
Pay for Performance	0.571	1.000	***	0.270	0.676	***	0.871	0.936	
Contribution	0.119	0.738	***	0.108	0.297	*	0.226	0.419	
Achievement	0.293	0.905	***	0.162	0.405	*	0.586	0.936	**
Market	0.595	1.000	***	0.081	0.432	***	0.936	1.000	
Fairness	0.000	0.592	***	0.000	0.243	**	0.129	0.387	*
Appropriate	0.268	0.905	***	0.081	0.405	**	0.517	0.774	*
Motivation	0.381	0.810	***	0.108	0.378	**	0.807	0.871	
Consultant	0.571	0.905	***	0.108	0.351	*	0.645	0.968	**
Total Remuneration Logics	3.524	8.691	***	1.162	4.216	***	6.129	8.065	***
Number of Continuously Listed Companies ²⁰⁹	42			37			31		

Table 14: Difference between Means of Continuously Listed Companies²¹⁰

²⁰⁹ The number of continuously listed companies has been reduced to those companies that have not changed significantly between 1998 and 2007, e.g. no major mergers or acquisitions.

²¹⁰ Key: *** Correlation is significant at the 0.001 level; ** Correlation is significant at the 0.01 level; * Correlation is significant at the 0.05 level.

Appendix D: Institutionalising the Discourse on Executive Remuneration

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	0.220	1.000								
Pay for Performance	*0.358	0.276	1.000							
Contribution	0.108	**0.547	0.203	1.000						
Achievement	0.071	0.267	**0.404	0.225	1.000					
Market	**0.441	**0.434	**0.674	0.176	**0.363	1.000				
Fairness							1.000			
Appropriate	*0.346	0.128	0.206	**0.468	0.102	0.170		1.000		
Motivation	**0.637	0.205	*0.329	0.108	0.164	*0.357		*0.299	1.000	
Consultant	**0.364	**0.398	0.259	0.277	0.226	**0.493		0.134	*0.302	1.000

Table 15: Correlations between Remuneration Logics for Australian Companies in 1998²¹¹

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	0.147	1.000								
Pay for Performance			1.000							
Contribution	0.144	0.238		1.000						
Achievement	**0.393	0.111		0.238	1.000					
Market						1.000				
Fairness	-0.056	0.042		0.023	-0.099		1.000			
Appropriate	0.118	0.082		0.181	0.082		0.125	1.000		
Motivation	0.221	*0.333		-0.089	0.000		-0.042	-0.185	1.000	
Consultant	**0.393	0.111		-0.059	**0.556		-0.099	0.082	0.167	1.000

Table 16: Correlations between Remuneration Logics for Australian Companies in 2007

²¹¹ Key: *** Correlation is significant at the 0.001 level; ** Correlation is significant at the 0.01 level; * Correlation is significant at the 0.05 level.

Institutional Logics of Corporate Governance and Discourse on Executive Remuneration

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	**0.423	1.000								
Pay for Performance	**0.543	**0.474	1.000							
Contribution	*0.342	**0.545	**0.374	1.000						
Achievement	**0.429	**0.423	**0.693	*0.342	1.000					
Market	**0.810	**0.423	**0.393	**0.570	0.238	1.000				
Fairness							1.000			
Appropriate	**0.552	**0.377	0.134	*0.314	0.236	**0.552		1.000		
Motivation	**0.423	**0.644	**0.474	0.234	**0.683	0.163		**0.377	1.000	
Consultant	**0.423	**0.644	**0.474	0.234	**0.423	**0.423		**0.377	**0.644	1.000

Table 17: Correlations between Remuneration Logics for New Zealand Companies in 1998

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	*0.324	1.000								
Pay for Performance	0.185	*0.337	1.000							
Contribution	**0.490	**0.434	0.177	1.000						
Achievement	**0.461	**0.413	**0.402	**0.567	1.000					
Market	**0.640	0.221	0.214	**0.479	**0.523	1.000				
Fairness	*0.296	0.128	0.177	0.068	0.153	**0.380	1.000			
Appropriate	*0.342	0.175	*0.286	*0.284	**0.487	**0.387	0.179	1.000		
Motivation	**0.633	*0.322	0.040	*0.360	0.265	**0.523	0.257	**0.393	1.000	
Consultant	**0.397	0.117	0.260	*0.314	0.241	**0.429	0.099	**0.369	0.145	1.000

Table 18: Correlations between Remuneration Logics for New Zealand Companies in 2007

Appendix D: Institutionalising the Discourse on Executive Remuneration

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	0.053	1.000								
Pay for Performance	-0.070	0.076	1.000							
Contribution	0.050	0.024	-0.110	1.000						
Achievement	-0.020	0.043	0.136	-0.009	1.000					
Market	-0.101	0.269	*0.315	0.010	0.197	1.000				
Fairness	-0.055	*0.284	0.084	0.151	0.220	0.122	1.000			
Appropriate	-0.061	0.188	0.211	0.219	0.060	0.006	0.167	1.000		
Motivation	**0.398	-0.072	-0.091	0.140	0.027	-0.132	0.023	-0.101	1.000	
Consultant	0.069	0.010	-0.137	*0.299	-0.039	-0.036	-0.108	0.058	0.066	1.000

Table 19: Correlations between Remuneration Logics for UK Companies in 1998

	Human Resources	Agency	Pay for Performance	Contribution	Achievement	Market	Fairness	Appropriate	Motivation	Consultant
Human Resources	1.000									
Agency	0.239	1.000								
Pay for Performance	**0.479	0.239	1.000							
Contribution	0.181	0.079	0.181	1.000						
Achievement	*0.316	0.118	*0.316	0.261	1.000					
Market						1.000				
Fairness	-0.060	-0.108	-0.060	0.091	0.068		1.000			
Appropriate	**0.408	-0.031	0.153	0.040	0.221		0.271	1.000		
Motivation	0.272	0.082	0.272	0.027	0.147		-0.028	0.000	1.000	
Consultant	**0.479	0.239	**0.479	0.181	*0.316		-0.060	0.153	0.272	1.000

Table 20: Correlations between Remuneration Logics for UK Companies in 2007

Institutional Logics of Corporate Governance and Discourse on Executive Remuneration

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	0.039	0.119	0.066	0.109	-0.013	0.248	-0.087	0.109	0.205
Agency	0.101	-0.039	-0.121	0.105	0.074	0.218	-0.006	-0.015	0.054
Pay for Performance	*0.330	*0.313	0.111	**0.374	*0.296	0.268	-0.182	-0.056	*0.282
Contribution	0.205	0.150	-0.174	0.250	0.136	**0.377	-0.173	0.006	0.236
Achievement	0.219	0.214	0.253	0.257	0.194	*0.291	0.120	0.231	*0.279
Market	0.174	0.237	0.052	0.244	0.127	0.189	-0.117	-0.028	0.254
Fairness									
Appropriate	0.205	0.088	0.233	0.203	0.079	**0.390	0.088	*0.349	0.251
Motivation	0.046	0.014	0.029	0.125	0.073	*0.331	-0.050	0.056	0.171
Consultant	0.032	0.154	-0.103	0.150	0.006	0.233	-0.204	-0.023	0.185
Total Remuneration Logics	0.236	0.229	0.068	*0.324	0.173	**0.446	-0.116	0.104	*0.343

Table 21: Correlation between Remuneration Logics and Financials for Australian Companies in 1998²¹²

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	0.255	*0.352	*0.317	0.080	0.024	0.042	0.077	0.131	0.106
Agency	-0.010	0.032	-0.056	-0.011	-0.055	-0.160	0.019	0.028	0.090
Pay for Performance									
Contribution	0.188	0.140	0.150	*0.309	0.157	0.091	-0.137	0.012	0.252
Achievement	-0.006	-0.022	-0.132	-0.014	-0.153	0.055	-0.077	0.003	0.129
Market									
Fairness	0.063	-0.082	-0.017	-0.164	-0.123	-0.018	-0.073	-0.146	-0.020
Appropriate	0.121	-0.017	0.225	0.078	-0.004	0.221	0.086	0.129	0.135
Motivation	0.136	0.182	-0.021	0.034	0.058	0.071	0.117	0.119	0.049
Consultant	0.210	0.092	-0.079	0.158	0.050	0.174	*-0.336	*-0.322	0.141
Total Remuneration Logics	0.261	0.169	0.101	0.126	-0.006	0.129	-0.092	-0.020	0.236

Table 22: Correlation between Remuneration Logics and Financials for Australian Companies in 2007

²¹² Key: *** Correlation is significant at the 0.001 level; ** Correlation is significant at the 0.01 level; * Correlation is significant at the 0.05 level.

Appendix D: Institutionalising the Discourse on Executive Remuneration

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	**0.440	*0.346	0.039	**0.461	**0.380	0.246	0.028	0.0362	**0.384
Agency	0.241	*0.308	***-0.512	*0.354	*0.336	0.039	*-0.328	*-0.286	0.055
Pay for Performance	***0.714	***0.642	0.108	***0.677	***0.628	0.248	-0.170	0.055	*0.289
Contribution	*0.336	0.258	-0.086	0.279	0.262	0.155	0.021	0.113	0.029
Achievement	***0.568	**0.457	0.176	***0.511	***0.516	*0.359	-0.091	0.080	0.173
Market	*0.285	0.203	-0.040	0.276	0.251	-0.011	0.071	0.045	0.133
Fairness									
Appropriate	-0.082	-0.120	0.036	-0.138	-0.145	0.090	*0.343	0.222	-0.050
Motivation	0.222	0.283	-0.111	*0.368	*0.298	*0.362	*-0.310	-0.175	*0.303
Consultant	0.149	0.239	-0.149	*0.317	0.256	0.005	*-0.310	-0.200	0.198
Total Remuneration Logics	***0.510	**0.455	-0.053	***0.534	**0.483	0.240	-0.120	0.000	0.258

Table 23: Correlation between Remuneration Logics and Financials for New Zealand Companies in 1998

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	**0.463	***0.565	**0.458	**0.378	*0.334	0.273	0.111	*0.297	0.218
Agency	**0.426	*0.348	**0.454	**0.366	**0.398	0.172	0.103	0.244	0.192
Pay for Performance	**0.392	*0.326	*0.356	**0.381	**0.407	0.261	-0.007	0.051	0.146
Contribution	***0.603	***0.664	***0.535	***0.616	***0.558	***0.550	-0.009	0.271	**0.412
Achievement	***0.672	***0.712	***0.494	***0.648	***0.632	*0.368	-0.099	0.148	*0.322
Market	***0.572	***0.614	**0.473	***0.583	***0.494	*0.295	-0.139	0.209	*0.331
Fairness	**0.409	*0.290	*0.350	**0.401	*0.352	0.171	-0.221	0.019	*0.333
Appropriate	**0.455	***0.536	*0.350	**0.396	*0.296	**0.399	0.113	*0.312	*0.350
Motivation	**0.409	***0.488	**0.453	*0.308	0.250	0.169	0.225	**0.449	0.240
Consultant	**0.369	**0.392	*0.300	*0.302	0.193	**0.450	-0.038	0.084	*0.354
Total Remuneration Logics	***0.762	***0.791	***0.676	***0.698	***0.623	***0.504	0.011	*0.337	**0.458

Table 24: Correlation between Remuneration Logics and Financials for New Zealand Companies in 2007

Institutional Logics of Corporate Governance and Discourse on Executive Remuneration

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	-0.192	-0.093	-0.086	0.008	-0.054	-0.067	-0.009	-0.068	0.020
Agency	*0.330	0.106	0.005	0.144	0.115	0.152	-0.110	0.202	0.100
Pay for Performance	-0.034	0.174	0.009	0.191	0.044	0.128	-0.193	-0.137	0.084
Contribution	0.105	-0.101	0.096	0.029	0.137	*0.339	0.000	-0.042	-0.080
Achievement	-0.029	0.207	0.007	0.007	0.007	0.250	0.117	-0.042	-0.130
Market	0.235	*0.282	0.093	*0.307	0.125	0.092	-0.126	*-0.333	0.014
Fairness	0.102	0.146	0.185	0.196	0.147	*0.317	0.015	0.016	0.128
Appropriate	0.087	0.058	-0.135	0.203	0.072	0.258	*-0.300	-0.013	0.134
Motivation	-0.148	-0.086	-0.098	-0.043	-0.122	-0.092	0.089	0.062	-0.084
Consultant	0.061	-0.224	-0.053	-0.011	-0.170	0.132	0.082	0.093	0.166
Total Remuneration Logics	0.195	0.098	-0.005	0.264	0.089	**0.428	-0.151	-0.137	0.089

Table 25: Correlation between Remuneration Logics and Financials for UK Companies in 1998

	Market Capitalisation (Natural Log)	Revenue (Natural Log)	Net Profit after Tax (Natural Log)	Total Assets (Natural Log)	Net Assets (Natural Log)	Dividend per Share	Return on Assets	Return on Equity	Debt-to-equity Ratio
Human Resources	0.258	0.254	0.061	0.227	0.104	0.015	-0.187	0.051	0.111
Agency	0.200	0.245	-0.013	*0.287	0.253	-0.120	** -0.373	-0.066	0.125
Pay for Performance	0.069	0.176	-0.007	0.186	0.098	0.011	*-0.286	0.019	0.101
Contribution	-0.179	-0.098	0.056	-0.045	-0.230	0.094	-0.084	0.168	0.210
Achievement	0.028	0.135	-0.053	-0.044	0.004	-0.052	-0.081	0.045	-0.075
Market									
Fairness	-0.158	-0.037	0.021	-0.122	-0.167	-0.045	0.041	0.167	0.109
Appropriate	*0.322	0.235	0.023	0.131	0.104	0.122	-0.021	0.095	0.039
Motivation	-0.178	-0.169	-0.124	-0.042	-0.066	0.059	-0.193	0.010	0.007
Consultant	-0.119	-0.080	-0.104	0.045	-0.110	-0.185	*-0.312	0.028	0.109
Total Remuneration Logics	0.017	0.116	-0.013	0.096	-0.051	0.004	-0.276	0.153	0.184

Table 26: Correlation between Remuneration Logics and Financials for UK Companies in 2007

Appendix D: Institutionalising the Discourse on Executive Remuneration

	Australia – 1998			Australia – 2007			New Zealand – 1998			New Zealand – 2007			United Kingdom – 1998			United Kingdom – 2007		
	1	2+	Sig.	1	2+	Sig.	1	2+	Sig.	1	2+	Sig.	1	2+	Sig.	1	2+	Sig.
Human Resources	0.524	0.517		0.871	1.000		0.031	0.313	**	0.333	0.850	***	0.905	0.893		1.000	0.950	
Agency	0.191	0.241		0.871	0.947		0.000	0.188	*	0.233	0.500		0.571	0.750		0.800	0.900	
Pay for Performance	0.476	0.621		1.000	1.000		0.031	0.625	***	0.567	0.800		0.952	0.964		1.000	0.950	
Contribution	0.095	0.138		0.645	0.842		0.031	0.188		0.100	0.400	*	0.095	0.393	*	0.500	0.425	
Achievement	0.143	0.310		0.903	0.895		0.000	0.375	***	0.067	0.700	***	0.810	0.750		0.900	0.925	
Market	0.571	0.621		1.000	1.000		0.063	0.250		0.100	0.800	***	0.905	0.929		1.000	1.000	
Fairness	0.000	0.000		0.677	0.632		0.000	0.000		0.100	0.400	*	0.048	0.214		0.200	0.400	
Appropriate	0.191	0.172		0.871	0.895		0.031	0.063		0.133	0.550	**	0.429	0.571		0.600	0.850	
Motivation	0.476	0.276		0.774	0.842		0.000	0.188	*	0.133	0.600	***	0.857	0.821		1.000	0.875	
Consultant	0.667	0.621		0.903	0.895		0.000	0.188	*	0.167	0.450	*	0.714	0.679		1.000	0.950	
Total Remuneration Logics	3.333	3.512		8.516	8.947		0.177	2.375	***	1.933	6.050	***	6.191	6.724		8.00	8.225	
Market Capitalisation	\$5.19 ²¹³	\$9.89		\$15.82	\$36.45	**	\$0.43	\$7.96	***	\$0.83	\$12.08	**	£13.87	£22.92		£15.14	£31.02	
Revenue	\$3.49	\$7.77	*	\$6.25	\$20.97	***	\$0.32	\$6.61	***	\$0.43	\$5.92	**	£9.19	£10.52		£15.53	£24.74	
Net Profit after Tax	\$0.18	\$0.55	*	\$0.91	\$2.96	**	\$0.02	\$0.35		\$0.05	\$0.96	**	£0.65	£0.76		£1.38	£2.44	
Total Assets	\$16.83	\$29.39		\$35.73	\$99.70		\$0.48	\$28.77	**	\$1.01	\$55.29	*	£52.03	£37.35		£106.05	£158.75	
Net Assets	\$2.53	\$5.41		\$6.15	\$12.70	*	\$0.24	\$5.05	***	\$0.54	\$4.19	**	£3.61	£5.40		£6.84	£14.67	
Dividend per Share	\$0.31	\$0.30		\$0.85	\$0.63		\$0.16	\$0.21		\$0.19	\$0.36		£0.20	£0.21		£0.29	£0.30	
Return on Assets	5.3%	3.9%		7.1%	9.4%		6.8%	3.7%		9.3%	8.32%		6.5%	7.1%		7.3%	8.3%	
Return on Equity	12.6%	9.8%		17.8%	29.9%	*	10.4%	9.8%		15.8%	25.9%		29.3%	19.8%		23.4%	44.2%	
Debt-to-Equity Ratio	3.39	3.03		3.43	7.44		1.52	3.07		1.03	5.70	*	11.26	5.33		9.88	8.49	
Number of Companies	21	29		31	19		34	16		30	20		21	28		10	40	

Table 27: Differences between Means of Companies Listed in One Country and Multiple Countries

²¹³ Monetary figures are quoted in local currency (Australian dollars, New Zealand dollars and UK pounds) and in billions (except dividend per share).

Appendix E: Other Aspects of Codes of Practice

E.1. Introduction

Appendix E includes descriptive statistics and a brief discussion on the authorship of codes and the stated reasons for producing codes.

E.2. Authorship of Codes of Practice

The sample included eleven types of code issuers that produced codes (or official reports) on executive remuneration including: stock exchanges, stock exchange regulators, Government departments or agencies, directors' associations, professionals' associations (e.g. associations of accountants or lawyers), law firms, fund managers' or financial services associations, fund management firms, investors' associations, business associations, and non-profit organisations (e.g. research institutes).²¹⁴ Some of the codes were co-authored. For example, the Australian Institute of Directors' (2007) *Executive Equity Plan Guidelines* are jointly issued with the Australian Employee Ownership Association and the Australian Shareholders' Association. Also, many of the codes are endorsed by multiple entities. For example, the ASX Corporate Governance Council's (2003) *Principles of Good Corporate Governance and Best Practice Recommendations* is endorsed by 20 entities. This indicates that there are many types of organisations that are interested in executive remuneration. However, codes on executive remuneration have not been produced by consumer advocacy groups, community advocacy groups, environmental groups, political parties and universities.

Table E.1 shows what types of organisations produced the sampled codes in AU, NZ and the UK from 1991 to 2010. Notably, many codes are produced (or at least endorsed) by multiple organisations. In the UK, many codes have been produced by fund managers' or financial services associations such as the Association of British Insurers, and Government agencies such as the Financial Reporting Council. In AU, many codes have also been produced by fund managers' associations, but associations of directors, executives, professionals (e.g.

²¹⁴ Entities that have not produced any codes or official reports on executive remuneration include Governments (specifically, law-makers), executives' associations, accounting firms, employees' associations and universities (or academics). However, this does mean that these entities are uninterested in executive remuneration. On the contrary, these entities have produced codes and official reports on corporate governance, made submissions to code issuers and offered comments to the media. Further, Governments produce laws that include disclosure requirements on executive remuneration, although these laws do not include recommendations on how and how much executives should be paid.

Appendix E: Other Aspects of Codes of Practice

accountants) and investors have endorsed more codes than in the UK and NZ. In both AU and NZ, the stock exchange is self-regulated and, hence, produces codes. There has been a similar range of code issuers in NZ compared to AU and the UK, but NZ organisations have produced fewer codes. Overall, companies and their advisors have as strong an interest in producing codes as Governments and investors.

Table E.1: Types of Code Issuers

<i>Types of Code Issuers</i>	United Kingdom		Australia		New Zealand	
	<i>Primary</i>¹	<i>All</i>²	<i>Primary</i>	<i>All</i>	<i>Primary</i>	<i>All</i>
Stock Exchange	3 (11%)	4 (14%)	3 (13%)	5 (21%)	7 (44%)	7 (44%)
Stock Exchange Regulator	4 (14%)	4 (14%)	0 (0%)	0 (0%)	3 (19%)	3 (19%)
Government (Law)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Government Department or Agency	3 (11%)	4 (14%)	2 (8%)	2 (8%)	0 (0%)	0 (0%)
Directors' Association	0 (0%)	1 (4%)	3 (13%)	9 (38%)	1 (13%)	2 (13%)
Executives' Association	0 (0%)	0 (0%)	3 (13%)	12 (25%)	0 (0%)	0 (0%)
Professionals' Association	1 (4%)	2 (7%)	0 (0%)	36 (25%)	1 (6%)	1 (6%)
Accountancy Firm	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Law Firm	0 (0%)	0 (0%)	0 (0%)	0 (0%)	2 (13%)	2 (13%)
Fund Managers' or Financial Services Association	10 (36%)	20 (43%)	9 (38%)	31 (67%)	0 (0%)	0 (0%)
Fund Management Firm	5 (18%)	5 (18%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Investors' Association	1 (4%)	2 (7%)	2 (8%)	7 (29%)	1 (7%)	1 (7%)
Employees' Association	0 (0%)	0 (0%)	0 (0%)	1 (4%)	0 (0%)	0 (0%)
Business Association	1 (4%)	2 (7%)	0 (0%)	4 (17%)	0 (0%)	0 (0%)
Academics or University	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Non-profit Organisation	0 (0%)	0 (0%)	2 (8%)	2 (8%)	0 (0%)	0 (0%)
<i>Total</i>	28		24		16	
Notes:						
1 'Primary' refers to the code issuer who instigated the production of the code or, if the instigator is unknown, the code issuer that is named first in the code. The 'Primary' columns show how many codes that each type of code issuer is the instigator or first author.						
2 'All' refers to every code issuer that is named as an author or endorser of the code. The 'All' columns show how many codes that each type of code issuer has authored and endorsed.						

E.3. Stated Reasons for Producing Codes of Practice

Table E.2 shows what reasons code issuers gave for producing the codes that are sampled. There are four main reasons: First, jolts such as financial crises, corporate scandals and rewards for failure; second, inspired by other texts; third, scheduled revision; and fourth, other reasons such as a desire to improve firm performance by providing boards with guidance, or being invited by Government to produce a code or an official report. Many code issuers cited multiple reasons, but a few gave no reason. The reasons given illustrate that jolts capture the public's attention and Governments respond by asking organisations to produce codes and

code issuers respond by producing official reports and codes. Further, there may be either a collective rationality among code issuers as new codes are based on old codes, or a bandwagon effect, where code issuers risk their legitimacy if they do not produce codes. In addition, code issuers, particularly in AU and the UK, are likely to schedule periodic revision of their codes. This explains why there has been a proliferation of codes in many countries (Enrione et al., 2006) and illustrates how normative pressure to comply with codes' recommendations may increase over time (see Section 5.4.5).

Table E.2: Stated Reasons for Producing Codes

Stated Reasons	United Kingdom		Australia		New Zealand	
	<i># of texts</i>	<i>% of total</i>	<i># of texts</i>	<i>% of total</i>	<i># of texts</i>	<i>% of total</i>
Jolts (e.g. corporate scandals)	11	39%	10	42%	6	25%
Inspired by other texts	12	43%	13	54%	3	13%
Scheduled revision	3	11%	5	21%	0	0%
Other reasons	8	29%	9	38%	3	13%
Not stated	1	4%	1	4%	9	38%
<i>Total</i>	28		24		16	

Table E.3 presents selected extracts from a range of codes on the stated reasons for producing codes. In discussing jolts (e.g. corporate scandals), the language of code issuers is striking because they frame jolts as problems that they are capable of solving. In this sense, codes are presented as solutions to these problems: Code issuers are advancing the proposition that if boards follow the code recommendations, then there will be no more financial crises, corporate scandals, rewards for failure, etc. Further, the manner in which code issuers refer to other codes is also striking because they are presenting an aura of rationality. Essentially, code issuers are trying to persuade the public that their code represents 'best practice' because their codes' recommendations are building on other codes' recommendations. This is reminiscent of the search for the Holy Grail of corporate governance (see Chapter 2). However, code issuers have failed to realise that there is no Holy Grail. Further, the authority of the codes issuers is enhanced by invoking the authority of Governments or professing moral superiority (e.g. UK's Hermes, 2008).

Table E.3: Selected Extracts on the Stated Reasons for Producing Codes

Stated Reasons	United Kingdom	Australia	New Zealand
Jolts (e.g. corporate scandals)	Greenbury (1995, p.9): “Recent concerns about executive remuneration have centred above all on some large pay increases and large gains from share options in the recently privatised utility industries. These increases have sometimes coincided with staff reductions, pay restraint for other staff and price increases... There have also been concerns about the amount of compensation paid to some department Directors.”	IFSA (2002, p.3): “Fund managers first developed these Guidelines as a result of some of the corporate excesses during the 1980s... Recent high profile collapses have firmly placed Corporate Governance in the spotlight of the wider community. It is therefore timely to review the IFSA Guidelines to ensure that IFSA continues to provide best practice guidance to its Members and Australian listed companies.”	Minter Ellison (2003, p.1): “The issue of “corporate governance” is currently a major focus in New Zealand and international boardrooms, with regulators and with governments. This has been in response to high profile collapses and massive destruction in shareholder value around the world including Enron, Worldcom, OneTel and HIH.”
Inspired by other texts	ABI (1999a, p.1): “In the light of developing practice, including the emergence of LTIPs... and the conclusions of the Greenbury and Hampel reports and the provisions of the Combined Code, it is appropriate to reassess the practical application of the Guidelines and their underlying principles.”	IFSA (2009, p.11): “These Guidelines will be reviewed by IFSA to take account of Australian developments... and the status of international best practice principles.”	Minter Ellison (2003, p.2): “We have not attempted to summarise the various reports or recommendations around the world, which we have reviewed... Generally, they are all worthy documents which are well written, considered and useful reference points.”
Scheduled revision	Financial Reporting Council (2010, p.1): “The Code has been enduring, but it is not immutable. Its fitness for purpose in a permanently changing economic and social business environment requires its evaluation at appropriate intervals. The reviews preceding this one were in 2005 and 2007.”	ACSI (2009, p.3): “ACSI first developed Corporate Governance Guidelines in March 2003 as a supplement to existing regulatory and industry standards. Since then, the Guidelines have been updated every two years to take into account the changing regulatory and governance landscape.”	NZX (2010, p.5): “NZX may from time to time amend these Rules, in accordance with the relevant Procedure.”
Other reasons	Hermes (2008, p.3): “So far Hermes (and indeed all other fund managers) have been less explicit in addressing the question of the management implications of accepting the goal of value creation. This document aims to fill that gap... We would like to replace the damaging finger-pointing which has characterised the City-Industry debate in the past, with a positive dialogue between managers and owners about the proper purpose of the corporation.”	Productivity Commission (2009, p.IV): “I, CHRIS BOWEN, Assistant Treasurer, under part 3 of the Productivity Commission Act 1998, hereby request that the Productivity Commission undertake an inquiry into the current Australian regulatory framework around remuneration of directors and executives...”	Securities Commission (2004a, p.3): “The Minister of Commerce asked the Securities Commission in June 2003 to take a lead in developing corporate governance principles for New Zealand.”

Appendix F: Institutional Logics of Corporate Governance

Appendix F reproduces Crombie (2011). This paper was presented at the Fifth New Zealand Management Accounting Conference (17-18 November 2011), which was held in Wellington, New Zealand. The paper was subject to blind peer review before being accepted for presentation at this conference.

As described in Chapter 4, a pilot study was undertaken to gain an in-depth understanding of the discourse on corporate governance and executive remuneration in codes and corporate annual reports from Australia, New Zealand and the United Kingdom. Six texts were studied including one code and one corporate annual report from each country. The objective of the pilot study was to understand how Corporate Logic and Investor Logic are embedded in organisational texts. The findings from this pilot study are presented in Crombie (2011) and reproduced in this appendix.

The paper's findings are underdeveloped compared to the findings in Chapter 6. To a great extent, the paper does illustrate the differences between Corporate Logic and Investor Logic. However, the general framework of corporate governance had not been fully developed at the time the paper was prepared (see Chapter 2, Table 2.3). Consequently, Corporate Logic and Stakeholder Logic were blended in the paper. As explained in Chapter 2, Corporate Logic assumes that the corporate objective is shareholder value maximisation, whereas Stakeholder Logic assumes that it is stakeholder value maximisation. The paper mistakenly argues that a corporate objective of stakeholder value maximisation is consistent with Corporate Logic. The corporate objective of Wesfarmers is also misclassified in the paper. It is consistent with *enlightened* shareholder value maximisation, not stakeholder value maximisation because customers and employees are conceptualised as a means to the end of shareholder value.²¹⁵

²¹⁵ Wesfarmers (AU, 2007, p.i) state, "Our primary objective is to provide a satisfactory return to shareholders. We aim to achieve this by: - satisfying the needs of customers... - providing a safe and fulfilling working environment for employees... responding to the attitudes and expectations of the communities in which we operate..." While, Wesfarmers' phrase "provide a satisfactory return to shareholders..." is unusual, the performance measures on which executives' short- and long-term incentives are based are mainly profit-oriented (see Wesfarmers, 2007, p.126). This is consistent with Corporate Logic.

Institutional Logics of Corporate Governance

Abstract

Purpose: Zajac and Westphal (2004) argue that there are two institutional logics of corporate governance: Corporate Logic and Investor Logic. This paper examines how Corporate Logic and Investor Logic are embedded in public discourse on corporate governance.

Design/methodology/approach: A selection of codes of practice and corporate annual reports from Australia, New Zealand and the United Kingdom are sampled. Extracts from the sampled texts are collected and analysed. These extracts relate to eight aspects of corporate governance (including incentive schemes and performance measures).

Findings: Public discourse on corporate governance is consistent with both Corporate Logic and Investor Logic. Investor Logic is more deeply embedded in the sampled codes of practice than Corporate Logic; whereas both logics are deeply embedded in the sampled corporate annual reports.

Theoretical implications: Despite Corporate Logic and Investor Logic have opposing assumptions about human behaviour and implications for corporate governance, these logics appear to have merged into a new institutional logic.

Paper Type: Empirical

Key words: Corporate governance; Institutional theory; Discourse analysis

1. Introduction

This paper examines how Corporate Logic and Investor Logic are embedded in public discourse on corporate governance as represented by codes of practice and corporate annual reports. Corporate Logic asserts that directors and executives are knowledgeable professionals that can be trusted by stakeholders to act in their best interests (Zajac and Westphal, 2004). By contrast, Investor Logic asserts that executives are self-interested, independent directors should be appointed to control executives, and financial incentives are necessary to align the interests of executives with those of shareholders (Zajac and Westphal, 2004). This research is not concerned with the empirical validity of these knowledge claims.

Instead, this research is concerned with how institutional logics are embedded in public discourse. Institutional logics are beliefs, ideas, norms, rules and values that are a coalescing discourse with a durable meaning, which materially influences organisational behaviour (Thornton et al., 2005). While Zajac and Westphal (1995; 2004) only examined a few aspects of corporate governance, this research examines many aspects of corporate governance in order to understand how Corporate Logic and Investor Logic influence organisational behaviour.

This paper is organised as follows. The literature on institutional theory, discourse theory and institutional logics is reviewed in section 2. In assessing prior research, a gap in knowledge is articulated. How this gap is studied is discussed in section 3. This includes a description of the research questions and method. Section 4 presents the findings from the discourse analysis of three codes and three corporate annual reports. The findings closely examine the consistency between the theoretical conceptions of Corporate Logic and Investor Logic and the principles and recommendations in codes and policies and practices in corporate annual reports. A discussion of the findings is presented in section 5, and considers how both logics can co-exist in public discourse despite having opposing implications for corporate governance. Concluding comments are drawn in section 6.

2. Literature Review

Institutional theory has traditionally sought to explain how and why organisations in the same industries become homogeneous over time (DiMaggio and Powell, 1983). Homogeneity amongst organisations occurs as organisations conform to societal expectations. Institutions are societal expectations that have become taken-for-granted or ingrained in society. By conforming to societal expectations, organisations reproduce and empower institutions. There are three institutional pressures that compel organisations to conform (Scott, 2008). Organisations are subject to: First, coercive pressure through laws and law enforcement; Second, normative pressure through codes of practice and certification by professional bodies; Third, mimetic pressure through people's desire to imitate others. However, organisations are not slaves to institutions; organisations may symbolically conform to or resist institutional pressures. Further, institutional theory does not rule out heterogeneity amongst organisations. For example, heterogeneity can arise when institutional pressures are weak or conflicting.

Discourse theory is the study of how people use language to interpret and construct their social reality (Alvesson and Kärreman, 2000). Language encompasses all talk and texts, whereas discourse is a subset of language that has a durable meaning and influences the behaviour of individuals and organisations. Further, discourse defines power relationships and knowledge claims in society (Phillips, 2003). Embedded in discourse are beliefs, ideas, norms, rules and values, which are learnt and reproduced through talk and texts, particular in the context of organisational discourse. Organisations are both enabled and constrained by discourse, particularly Grand Discourse and Mega-Discourse (Alvesson and Kärreman, 2000). These are highly integrated and ordered sets of language that represents the taken-for-granted or universal way of talking, writing and acting. Thus, Grand Discourse and Mega-Discourse are akin to institutions (Phillips, 2003; Schmidt, 2010). Through the production and consumption of texts, organisations can influence and are influenced by institutions or Mega-Discourse (Phillips et al., 2004).

At the intersection of institutional and discourse theory are institutional logics, which Thornton and Ocasio (1999, p.804) defined as “the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality.” Societal institutions include the corporation, market, state, family, profession, and religion (Friedland and Alford, 1991), and these institutions are defined and shaped by a range of institutional logics within different societies or countries (Thornton et al., 2005). Institutional logics define what organisational behaviours are and are not socially expected and desirable. However, institutional logics can change over time as new ways of thinking and acting challenge existing institutions. For example, Thornton et al. (2005) found that public accounting transitioned from Fiduciary Logic to Corporate Logic as growing revenues and profits become the mission of accountancy firms following World War II.

Zajac and Westphal (2004) argue that there are two institutional logics of corporate governance, namely Corporate Logic and Investor Logic, which define and shape corporate governance systems that are both internal and external to the corporation. Rooted in stakeholder theory (Donaldson and Preston, 1995; Freeman et al., 2004) and stewardship theory (Donaldson, 1990; Davis et al., 1997), Corporate Logic asserts that management (directors and executives) are trustworthy and have the specialist expertise to govern and

manage corporations in the best interests of all stakeholders. By contrast, Investor Logic asserts that management, in the absence of controls and incentives, will act opportunistically. Only investors, through the invisible hand of capital markets, can monitor and discipline management to ensure that shareholder value is maximised. This is rooted in agency theory (Jensen and Meckling, 1976; Fama, 1980). Based on opposing assumptions about human behaviour and the corporate objective, Corporate Logic and Investor Logic have opposing implications for corporate governance, which are summarised in Table 1.

The eight aspects of corporate governance that are reviewed in Table 1 build on Zajac and Westphal's (2004) theoretical conceptions of Corporate Logic and Investor Logic. Given a positive view of human behaviour and a stakeholder-oriented corporate objective, Corporate Logic implies that non-executive directors will be strategic advisors to executives. Vertical and horizontal equity (e.g. comparable to others in similar roles, but fair to employees and other stakeholders) will be the primary determinants of the remuneration of non-executive directors and executives. Internal (financial and non-financial) performance measures will be used to assess the performance of executives, who may receive modest bonuses in recognition of their commitment and loyalty. By contrast, Investor Logic has a negative view of human behaviour and a shareholder-oriented corporate objective. To monitor executives, non-executive directors should be financially independent of the corporation. As capital markets are efficient, external (market-based) performance measures (e.g. total shareholder return) are not as easily manipulated by executives as internal performance measures. Contingent on external performance measures, financial incentives for executives are necessary to align their interests with those of shareholders.

Table 1: Theoretical Conceptions of Corporate Logic and Investor Logic

Aspects of Corporate Governance	Corporate Logic	Investor Logic
Human behaviour	Executives are trustworthy and motivated by intrinsic and extrinsic rewards	Executives are opportunistic and motivated by extrinsic rewards
Corporate objective	Stakeholder value maximisation	Shareholder value maximisation
Independence of the board of directors	Both non-executive and executive directors should be independent of mind	Board should comprise of a majority of non-executive directors, who are financially independent
Role of the board of directors (particularly, non-executive directors)	The board (and non-executive directors) is a strategic advisor to executives	The board (particularly non-executive directors) is a monitor and judge of executives
Role of the remuneration committee	The remuneration committee is a strategic human resources advisor; it has to ensure there is a balance of intrinsic and extrinsic rewards for executives.	The remuneration committee (comprising of entirely independent directors) is an evaluator of the performance of executives; it has to ensure that incentives are designed to align executives' interests with those of shareholders.
Remuneration policies and practices for non-executive directors	Fees; Retirement payments	Fees – Cash and shares; No retirement payments
Remuneration policies and practices for executives	Mainly fixed remuneration. Increases depend on stakeholder value and comparisons with other executives.	Mainly variable remuneration including short- and long-term incentives. Increases depend on shareholder value.
Performance measures for evaluating executives	Financial and non-financial	Financial and market-based measures

Zajac and Westphal (1995; 2004) found that there has been a transition from Corporate Logic to Investor Logic amongst US corporations. When US corporations adopted long-term incentive plans, Zajac and Westphal (1995) found that justifications of these plans were consistent with both Corporate Logic and Investor Logic. Consistent with Corporate Logic, long-term incentive plans may be adopted to attract and retain talented executives; whereas consistent with Investor Logic, long-term incentive plans may be adopted to align executives' interests with those of shareholders. While the choice of justification was dependent on the power of the board and firm performance, justifications consistent with Investor Logic become more common over time. Further, Zajac and Westphal (2004) found that investors reaction to the adoption of stock repurchase plans changed from negative in the early 1980s to positive in the mid 1980s, irrespective of these plans being implemented. Consistent with Investor Logic, investors reacted favourably to stock repurchase plans as such plans represented management's intention to return free cash flows to the capital markets. This is inconsistent with Corporate Logic because stock repurchase plans represent an admission by management that they do not have any future investment opportunities.

Crombie (2009) and Crombie et al. (2010) challenge Zajac and Westphal's (2004) conclusion that there has been a transition from Corporate Logic to Investor Logic. In a study of the largest 50 US corporations, Crombie et al. (2010) found that justifications of the Chief Executive Officer's (CEO's) remuneration in 1998 and 2007 proxy statements were consistent with both Corporate Logic and Investor Logic. Contra to Zajac and Westphal (1995), they found that the presence of these justifications increased over time to the point of where almost all proxy statements contained the same set of justifications. Similarly, Crombie (2009) found the same pattern of diffusion in the annual reports of the largest 50 publicly listed companies in Australia, New Zealand and the United Kingdom. These findings indicate that both Corporate Logic and Investor Logic have become the taken-for-granted ways of justifying executive remuneration or institutionalised discourse.

Crombie (2009) and Crombie et al. (2010) also studied codes of practice on corporate governance. These are mainly produced by regulators, stock exchanges, investors' associations and directors' associations. Codes often include principles and recommendations on executive remuneration. Both studies found that justifications of remuneration are diffused first in codes and then in corporate annual reports (or proxy statements), indicating that codes are the manifestation of coercive and normative pressure. Further, these justifications of remuneration are consistent both Corporate Logic and Investor Logic. Interpreted through Phillips et al.'s (2004) discursive model of institutionalisation, this evidence shows that texts are influential and corporations can gain legitimacy (or attest to their conformance to societal expectations) through their corporate annual reports. However, Crombie (2009), Crombie et al. (2010) and Zajac and Westphal (1995; 2004) did not examine how deeply embedded Corporate Logic and Investor Logic are in the discourse on corporate governance because only justifications of executive remuneration are studied.

3. Research Method

This research "tries to explore the ways in which the socially produced ideas and objects that populate the world are created and maintained" (Phillips, 2003, p.222). In doing so, this paper has two objectives: first, to map and analysis the discourse on corporate governance within codes of practice and corporate annual reports; second, to examine the extent to which Corporate Logic and Investor Logic are embedded in this discourse. While previous research has studied a few aspects of the discourse across many organisational texts, this research investigates many aspects of the discourse across a few organisational texts. Consequently,

my epistemological position is interpretive structuralism and methodological position is qualitative. Through a discourse analysis (Alvesson and Kärreman, 2000), this research examines the discourse on corporate governance from a macro or long-range perspective in order to contextualise Corporate Logic and Investor Logic. This approach will enable me to gain a deeper, richer understanding of these institutional logics (Bryman and Bell, 2003).

The sample of organisational texts is drawn from Crombie's (2009) sample. While Crombie (2009) sampled a range of organisational texts produced between 1991 and 2008, this research samples organisational texts that were produced in recent years because these texts are more likely to be shaped by both Corporate Logic and Investor Logic. One code of practice and one corporate annual report from Australia, New Zealand and the United Kingdom are sampled; six texts in total.

The sampled texts include three codes, namely: Financial Reporting Council's (2006) Combined Code from the UK ('FRC Code'), ASX Corporate Governance Council's (2003) Principles of Good Corporate Governance and Best Practice from Australia ('ASX Code'), and Securities Commission's (2004) Corporate Governance in New Zealand: Principles and Guidelines ('SecCom Code'). These codes are selected because they are the most influential and prominent. FRC Code and ASX Code are legally enforceable. Listed companies must disclose in their annual reports if they comply with these codes or explain why they do not comply. SecCom Code is not legally enforceable, but is still influential as it was produced by a Government agency.

The sampled texts also include three corporate annual reports, namely: Legal & General Group plc's *2007 Annual Report* from the UK ('L&G Report'), Wesfarmers Limited's *2007 Annual Report* from Australia ('Wesfarmers Report'), and Hallenstein Glasson Holdings Limited's *2007 Annual Report* from New Zealand ('H&G Report'). Two criteria were used to select these corporate annual reports. First, the companies selected had to be listed on only one stock exchange to minimise the influence of foreign codes. Second, the companies selected should be representative of the largest 50 listed companies, where representative means that the corporate annual report includes the average number of justifications of remuneration (as reported in Crombie, 2009). L&G Report, Wesfarmers Report and H&G Report were randomly selected from companies in the sample that met these criteria.

Phillips (2003, p.223) argues that, “Discourse analysis... is the structured and systematic study of collections of interrelated texts and the processes of their production, dissemination, and consumption.” Both codes and corporate annual reports are sampled because these texts are interrelated; for example, the dissemination of codes influences the production of corporate annual reports (Crombie, 2009). This discourse analysis examines the principles and recommendations in codes and policies and practices in corporate annual reports. By systematically studying the consistency between the theoretical conceptions of Corporate Logic and Investor Logic and the discourse on corporate governance in the codes and corporate annual reports, this paper reveals the extent to which these institutional logics are embedded in the texts. However, it may be that the institutional logics are not deeply embedded in the texts. The principles and recommendations in codes and policies and practices in corporate annual reports may be ambiguous, conflicting or superficial. Therefore, four possible outcomes are considered: Corporate Logic only; Investor Logic only; both Corporate Logic and Investor Logic; no (or another) logic.

As defined in Table 1, eight aspects of corporate governance that may vary between Corporate Logic and Investor Logic are studied. These aspects of corporate governance are the most prominent in academic discourse on corporate governance and provide a clear distinction between institutional logics. The discourse analysis involved multiple close readings of the texts. All phrases, sentences and paragraphs that are related to these aspects of corporate governance were collected from the texts, and then analysed for consistency with both Corporate Logic and Investor Logic. In some cases, there were insufficient quotes from the texts on several aspects of corporate governance for any conclusion to be made. But in most cases, the quotes from the texts were highly consistent with Corporate Logic, Investor Logic or both logics.

The main limitation of this research is that the analysis of the quotes from the texts relies on the subjective interpretations of the researcher. This is unavoidable in discourse analysis. However, quotes from the texts are presented in this paper, so that the readers of this research can re-interpret my findings and conclusions. Of course, it can be argued that I have chosen to include only those quotes that fit with my argument. This is why a detailed analysis of the texts is available upon request. Further, confirmation bias may have led me to choose only those quotes that fit with Corporate Logic and/or Investor Logic. While there are many institutional logics that influence organisational behaviour (Thornton et al., 2005), Corporate

Logic and Investor Logic were not chosen prior to the research beginning. These institutional logics emerged as I undertook through multiple close readings of the texts. Therefore, this main limitation has been, to some extent, mitigated.

4. Findings

An overview of the codes and corporate annual reports is given in Table 2. Two aspects of the texts are studied. First, the proportion of the texts dedicated to corporate governance and remuneration is calculated.²¹⁶ A comparable proportion of the codes are dedicated to corporate governance, but SecCom Code has a lower proportion dedicated to remuneration than the other codes. Notably, SecCom Code only has 494 words on remuneration, while FRC Code has 1,173 words and ASX Code has 2,091 words. A comparable proportion of the corporate annual reports are dedicated to corporate governance and remuneration, but H&G Report has much fewer words on these matters than L&G Report and Wesfarmers Report. H&G Report only has 1,042 words on remuneration, while L&G Report has 7,383 words and Wesfarmers Report has 7,182 words.

Second, the remuneration principles or policies espoused in the codes and corporate annual report are reproduced, and the six remuneration rationales studied are typically part of these principles. Principles are fundamental beliefs or propositions on which recommendations or practices are derived. In both the codes and corporate annual reports, a common set of justifications of remuneration are found in the principles on which the recommendations in codes and practices in corporate annual reports are based. Typically, these principles are: to attract and retain talented executives; to pay executives at a competitive level in the market; and to link executive remuneration to firm performance. However, these principles are general (or non-specific) in nature. This affords decision-makers much flexibility in determining remuneration recommendations and practices as is shown in the remainder of this chapter.

The remuneration principles and policies from the codes and corporate annual reports are broadly consistent with both logics. Consistent with Corporate Logic, executives are depicted as being high-quality or talented, rather than opportunistic. However, L&G's policy does

²¹⁶ Note that words are not double counted; any words about remuneration found in sections on corporate governance are counted as part of remuneration. Also note that remuneration includes words about non-executive directors, executives and other employees.

imply that incentives are necessary to align executives' interests with those of shareholders, which is consistent with Investor Logic. Fairness, in the broadest sense of the word, is emphasised as executive remuneration ensures horizontal equity (between executives) and vertical equity (executives compared to employees and shareholder returns). This is also consistent with Corporate Logic. But consistent with Investor Logic, the remuneration policies assert that executive remuneration should be dependent on firm performance. However, these remuneration policies are also non-specific. Further analysis is required to determine whether this consistency with both logics remains as these policies are elaborated and applied in the texts.

Table 2: Overview of Selected Texts

	Word Count	Remuneration Principles or Policies
Codes of Practice		
UK: FRC Code (2006)	<ol style="list-style-type: none"> 1. Total: 7,669 words 2. Corporate Governance (CG): 6,255 words (82%) 3. Remuneration (REM): 1,173 words (15%) 	<p>“Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors’ remuneration should be structured so as to link rewards to corporate and individual performance.” (p11) “There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.” (p.12)</p>
AU: ASX Code (2003)	<ol style="list-style-type: none"> 1. Total: 16,686 words 2. CG: 14,102 words (85%) 3. REM: 2,091 words (13%) 	<p>“Principle 9: Remunerate fairly and responsibly Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined. This means that companies need to adopt remuneration policies that attract and maintain talented and motivated directors and employees so as to encourage enhanced performance of the company. It is important that there be a clear relationship between performance and remuneration, and that the policy underlying executive remuneration be understood by investors.” (p.51)</p>
NZ: SecCom Code (2004)	<ol style="list-style-type: none"> 1. Total: 7,620 words 2. CG: 6,695 words (88%) 3. REM: 494 words (6%) 	<p>“The remuneration of directors and executives should be transparent, fair, and reasonable. The board should have a clear policy for setting remuneration of executives (including executive directors) and non-executive directors at levels that are fair and reasonable in a competitive market for the skills, knowledge and experience required by the entity.” (p.17)</p>
Corporate Annual Reports		
UK: Legal & General (2007)	<ol style="list-style-type: none"> 1. Total: 89,605 words 2. CG: 8,936 words (10%) 3. REM: 7,383 words (8%) 	<p>“The Group’s remuneration policy is broadly consistent for all employees and is designed to support recruitment, motivation and retention. Remuneration is considered within the overall context of the Group’s sector and the markets in which the divisions operate. The policy for the majority of employees continues to be to pay around the relevant mid-market level with a package designed to align the interests of employees with those of shareholders, with an appropriate proportion of total remuneration dependent upon performance. Management work in partnership with the trade union, Unite, to ensure our pay policies and practices are free from unfair bias. This is monitored by an annual equal pay audit.” (p.49)</p>
AU: Wesfarmers (2007)	<ol style="list-style-type: none"> 1. Total: 64,560 words 2. CG: 8,809 words (14%) 3. REM: 7,182 words (11%) 	<p>“Wesfarmers aligns its remuneration policies with shareholder interests by setting performance targets for senior executives that are based on factors that are under their control and that maximise long-term total shareholder returns. These policies are directed at attracting, motivating and retaining quality people. Key principles in developing the remuneration structure and levels are: creation of shareholder value; market competitiveness; and recognition of individual performance. Alignment with these principles is achieved through a variable pay structure. Annual incentives are heavily weighted to return on capital and earnings before interest and tax measures, and long term incentives have a return on equity focus...” (p.125)</p>
NZ: Hallenstein Glasson (2007)	<ol style="list-style-type: none"> 1. Total: 14,195 words 2. CG: 2,268 words (16%) 3. REM: 1,042 words (7%) 	<p>“The function of the [Remuneration] Committee is to make specific recommendations on remuneration packages and other terms of employment for Directors and executive Directors. The Committee utilises independent advice where necessary to ensure remuneration practices are appropriate for the Company, and to ensure the best possible people are recruited and retained.” (p.39)</p>

Table 3 highlights the extent to which Corporate Logic and/or Investor Logic are embedded in selected codes of practice and corporate annual reports. Embedded refers to the degree of consistency between theoretical conceptions of Corporate Logic and Investor Logic and public discourse on corporate governance (including executive remuneration). Consistency is judged across eight aspects of corporate governance. While there are degrees of consistency, consistency is reported on an absolute basis in Table 3. Thus, there are four possibilities: No logic²¹⁷, Corporate Logic, Investor Logic, or both logics. However, the symbolic or substantive nature of this public discourse is not analysed. While Corporate Logic and Investor Logic may be embedded in public discourse, these logics may also be decoupled from private discourse and practices.²¹⁸

Summarised in Table 3, the discourse analysis shows that Investor Logic is more deeply embedded than Corporate Logic in the codes of practice, whereas both Corporate Logic and Investor Logic are deeply embedded in the corporate annual reports. The principles and recommendations found in codes of practice are comparable. Of the eight aspects of corporate governance, there are three aspects where there are differences between the codes of practice. The policies and practices found in corporate annual reports are comparable, but there are many subtle differences. Of the eight aspects of corporate governance, there are only three aspects where there are not differences between the corporate annual reports. Further, there are many differences between the codes and corporate annual reports. These similarities and differences are discussed in depth in the following section.

²¹⁷ In this context, no logic means that there is insufficient discourse on a particular aspect of corporate governance for a conclusion to be made, or the discourse on a particular aspect of corporate governance was inconsistent with both Corporate Logic and Investor Logic.

²¹⁸ Public discourse refers to texts that are made freely available to anyone, whereas private discourse refers to texts that are not freely available to anyone. The public may not know of the existence of some texts. Further, remuneration practices are not observable. The public learns of remuneration practices through texts such as corporate annual reports. Remuneration practices, which are described in public texts, can be symbolic as how remuneration is determined in private may be different to how it is described in public.

Table 3: Institutional Logic/s Embedded in Selected Codes of Practice and Corporate Annual Reports

Aspects of Corporate Governance and Remuneration	UK: FRC Code (2006)	AU: ASX Code (2003)	NZ: SecCom Code (2004)	UK: L&G's 2007 Annual Report	AU: Wesfarmers' 2007 Annual Report	NZ: H&G's 2007 Annual Report
Human behaviour	Investor Logic	Investor Logic	Investor Logic	Corporate Logic and Investor Logic	Corporate Logic	Investor Logic
Corporate objective	Investor Logic	Investor Logic	Investor Logic	Corporate Logic	Corporate Logic	Investor Logic
Independence of the board of directors	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic
Role of the board of directors (particularly non-executive directors)	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic
Role of the remuneration committee	Investor Logic	Investor Logic	---	Investor Logic	Investor Logic	Investor Logic
Remuneration policies and practices for non-executive directors	Investor Logic	Investor Logic	Corporate Logic and Investor Logic	Investor Logic	Corporate Logic and Investor Logic	Investor Logic
Remuneration policies and practices for executives	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic	Corporate Logic and Investor Logic
Performance measures for evaluating executives	Investor Logic	---	---	Corporate Logic and Investor Logic	Corporate Logic	Corporate Logic
<i>Overall (No. of times each logic is present in each text)</i>	<i>Corporate Logic (3) and Investor Logic (8)</i>	<i>Corporate Logic (3) and Investor Logic (7)</i>	<i>Corporate Logic (4) and Investor Logic (6)</i>	<i>Corporate Logic (6) and Investor Logic (7)</i>	<i>Corporate Logic (7) and Investor Logic (5)</i>	<i>Corporate Logic (4) and Investor Logic (5)</i>

Human behaviour is portrayed in a different ways in the texts. Consistent with Investor Logic, the codes depict directors and executives as corruptible and self-interested. For example, FRC Code (2006, p.4) contends that, “No one individual should have unfettered powers of decision.” Consistent with Corporate Logic, directors, executives and other employees are praised in L&G Report and Wesfarmers Report. For example, Wesfarmers’ (2007, p.5) Chairman writes, “I would... like to extend a personal vote of thanks to my fellow directors for their hard work and tireless contribution.” No thanks are given in H&G’s Chairman’s letter. Instead, consistent with Investor Logic, the Chairman argues that shareholders should adopt a new share purchase scheme “...to align the interests of senior executives with those of the shareholders” (H&G, 2007, p.7).

The corporate objective is shareholder-orientated in the codes and H&G Report, and stakeholder-oriented in L&G Report and Wesfarmers Report. In the texts, shareholders are separated from other stakeholders and maximising shareholder value is believed to be compatible with economic growth. For example, SecCom Code (2004, p.3) opines that, “Good corporate governance should... attract support from investors and other stakeholders... [and] make businesses more... financially sustainable.” While discourse in texts is often consistent with Investor Logic, the corporate objectives of L&G and Wesfarmers treat all stakeholders as separate ends and are consistent with Corporate Logic. For example, L&G (2007, p.ii) state that there corporate objective is “...to deliver sustainable benefits for customers, shareholders and employees.”

Corporate governance concerns the definition of director independence and the proportion of directors that are deemed independent. While director independence is defined in financial terms in the texts, independence of mind is also emphasised. For example, Wesfarmers (2007, p.46) states that both non-executive and executives directors “bring independent views and judgement to the Board’s deliberations.” These definitions are consistent with both Corporate Logic and Investor Logic. Further, the codes recommend that the board should be comprised of a majority of independent non-executive directors, and the companies do adhere to this recommendation. However, the codes also recommend that the board should include “an appropriate balance of executive and non-executive directors” (SecCom, 2004, p.9), and the companies’ boards also include executive directors. Again, this is consistent with both Corporate Logic and Investor Logic.

The role of the board of directors that is recommended in codes and declared in corporate annual reports is to both monitor and advise executives. Consistent with Investor Logic, a control role is strongly emphasised in the texts. For example, L&G (2007, p.44) affirm that, “the Board regularly reviews major projects, considers operating and financial issues and monitors performance against plan.” Consistent with Corporate Logic, a strategic role is also strongly emphasised in the texts. For example, SecCom Code (2004, p.10) states that, “The board must guide the strategic direction of the entity, and direct and oversee management.” Non-executive directors are capable of being both advisors to and evaluators of executives. The texts offer no comment on the potential for conflict between these roles.

The role of the remuneration committee is to design a general framework for the company’s remuneration practices, design the CEO’s remuneration practices, monitor the performance of the CEO and determine how much the CEO will be paid. This role may also include approving the remuneration of other senior executives. Described in comparable terms in the texts (except SecCom Code), the role of the remuneration committee is consistent with Investor Logic. For example, Wesfarmers (2007, p.126) states that, “The Remuneration Committee is responsible for reviewing and making recommendations to the Board on remuneration policies for the company”. SecCom Code barely mentions the remuneration committee, so no conclusion regarding consistency with institutional logics is made. However, a role encompassing non-financial and intrinsic motivation – consistent with Corporate Logic – is not mentioned in any of the texts.

The remuneration policies and practices for non-executive directors in the texts are broadly consistent with Investor Logic. However, justification of the level of non-executive directors’ fees in SecCom Code (2004) and Wesfarmers Report, which is consistent with Corporate Logic. Overall, non-executive directors only receive fees; they do not receive incentives or retirement payments. This reinforces the financial independence of non-executive directors. Aside from shareholder voting against directors’ re-election, how to control the (assumed) self-interested behaviour of non-executive directors is not discussed. However, L&G (2007, p.50) does require, “Non-executive directors use at least 50% of their fees, after UK tax, to

buy Legal & General shares...” While this practice reduces the financial independence of non-executive directors, it is still consistent with Investor Logic.²¹⁹

The remuneration policies and practice for executives in the texts are broadly consistent with both Corporate Logic and Investor Logic. A range of justifications of remuneration practices are found in all of the texts. For example, FRC Code’s (2006, p.11) main remuneration principle states that, “Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required... but a company should avoid paying more than is necessary for this purpose. A significant proportion... should be [linked] to corporate and individual performance.” Similarly, recommended in the codes and described in the annual reports are packages that include elements of fixed and variable remuneration. Consistent with Investor Logic, the texts emphasise short- and long-term incentives more than other aspects of remuneration.

Short-term incentives are dependent on performance measures. The codes do not recommend any specific performance measures be used, but do recommend a general approach. For example, SecCom Code (2004, p.17) prescribes that, “Executive... remuneration packages should include an element that is dependent on entity and individual performance.” A range of financial and non-financial performance measures are listed in the annual reports of L&G and Wesfarmers, but not H&G. However, it may be that the performance measures focus on stakeholder value, particularly as market-based measures (such as total shareholder return) are not included. For example, L&G (2007, p.50) state that, “The Company is committed to treating customers fairly and this is also reflected appropriately in bonus objectives.” Overall, the performance measures recommended and selected in the texts are loosely consistent with both Corporate Logic and Investor Logic.

Long-term incentives are also dependent on performance measures. FRC Code recommends that relative total shareholder return be used to measure long-term performance. ASX Code and SecCom Code do not recommend any specific performance measures, but do caution against using performance measures that may encourage myopic behaviour amongst executives. This is consistent with Investor Logic. Long-term incentives at L&G are based

²¹⁹ This is a logical inconsistent with Investor Logic. Non-executive directors are assumed to be financially independent as long as their shareholding is small. However, small shareholdings may be financially significant for non-executive directors who have small investment portfolios.

relative total shareholder return over three years, which is also consistent with Investor Logic. In contrast, long-term incentives at Wesfarmers are based on relative and absolute return on equity, and H&G are not conditional (H&G provide executives with interest-free loans to purchase H&G shares). Wesfarmers uses an absolute return on equity target for executive directors because its objective is “providing a satisfactory [not maximum] return to shareholders” (Wesfarmers, 2007, p.125). This is consistent with Corporate Logic.

5. Discussion

Multiple writers produce both codes and corporate annual reports. The writers may have different backgrounds, motives and perceptions of an organisation’s intentions and actions. Given that the findings have shown that the sampled texts are ordered and structured in a comparable manner and have a stable definition of corporate governance, the multiple writers of the texts are most likely influenced by the same institutional logics. The writers may intend for the texts to provide incremental information to stakeholders (Merkl-Davies and Brennan, 2007), meaning that the texts are a faithful representation of the intentions and actions of the organisations. Alternatively, the writers may intend the texts to give stakeholders a favourable impression of the organisations (Merkl-Davies and Brennan, 2007), meaning that the texts are, to some extent, decoupled from the intentions and actions of the organisations. In any case, the institutional logics have shaped the writers’ perceptions of what ought to be (normative) and what is (descriptive) in terms of corporate governance.

This research proposed that there are four possible institutional positions: No logic; Corporate Logic; Investor Logic; and Both Corporate Logic and Investor Logic. The evidence shows that both Corporate Logic and Investor Logic are embedded, to varying degrees, in the sampled texts. To accept this conclusion is to reject the possibility that there is no logic embedded in the texts. Alvarez and Mazza (2000) argue that the managers are not shaped by texts, but are intelligent consumers of texts. It may be that the writers of codes and corporate annual reports choose what ideas and practices to adopt and ignore. From this perspective, the recommendations in codes and practices in corporate annual reports are a result of intelligent design and organisational learning (Zajac and Westphal, 2004). However, despite the subtle differences between the texts, the writers of the sampled texts are reproducing comparable ideas and practices. Both Corporate Logic and Investor Logic have become the fashionable and rational way of writing about corporate governance.

Westphal and Zajac (1998) found that investors react favourably to the adoption of long-term incentive plans and their reaction is more favourable when justified using Investor Logic, irrespective of whether the plans were implemented (or used). They argue that investors are fooled by symbolic disclosure. However, this research does not investigate the symbolic or substantive nature of the practices described in corporate annual reports. It may be that directors who attest that incentive schemes are necessary to attract and retain talented executives and align executives' interests to those of shareholders, are writing what investors and other stakeholders want to read. Directors may believe that incentives schemes are necessary for other reasons. Bebchuk and Fried (2003; 2006) argue that incentive schemes are used to enrich executives, rather than rewarding executives' efforts to maximise shareholder value. It may be that the corporate annual reports are highly symbolic. However, whether symbolic or substantive in nature, both Corporate Logic and Investor Logic are powerful Mega-Discourses that shape the public discourse on corporate governance.

Zajac and Westphal (2004) argued that US corporations and capital markets transitioned from Corporate Logic to Investor Logic in the mid 1980s. However, Crombie et al. (2010) found that both logics are deeply embedded in the 2007 proxy statements of US corporations. Similarly, Crombie (2009) found that both logics are deeply embedded in the 2007 corporate annual reports of Australia, New Zealand and UK publicly listed companies. But these studies do not show whether both logics can co-exist in the same institutional setting, are competing for dominance or have merged into a new institutional logic. This paper's findings suggest that Corporate Logic and Investor Logic have merged despite the opposing assumptions of these logics. Corporate Logic justifies how much directors and executives are remunerated, while Investor Logic justifies how directors and executives are remunerated. Corporate Logic's assumption that directors and executives are knowledgeable, trustworthy professions tempers Investor Logic's assumptions that directors and executives are self-interested.

A merging of Corporate Logic and Investor Logic is consistent with Jensen's (2001) enlightened stakeholder theory, where shareholder value is maximised in the long-term by satisfying the needs of stakeholders such as customers and employees. A merging of both logics also supports a pragmatic view of human behaviour, where some individuals are self-interested and will act opportunistically. In this context, codes set out the minimum standard of corporate governance. Incentives and controls are required to deter the minority of

individuals from acting opportunistically. Corporate annual reports describe the current practice of corporate governance, where directors are both monitors of and advisors to executives. This is supported by Sundaramurthy and Lewis (2003) and Roberts et al. (2005) arguments of moving beyond either/or prescriptions of corporate governance. Despite the ambiguity inherent in a merging of Corporate Logic and Investor Logic, codes and corporate annual reports present a framing of corporate governance that both protects stakeholders from opportunistic executives, encourages executives to think and act in the long-term interests of stakeholders, and provides directors and executives a significant degree of professional autonomy in deciding how to balance the competing interests of stakeholders.

6. Conclusion

Both Corporate Logic and Investor Logic are embedded in the selected codes and corporate annual reports. This is exemplified by the range of justifications of remuneration found in the texts. Consistent with Corporate Logic, the codes have a principles-based, comply-or-explain approach and non-specific recommendations; whereas consistent with Investor Logic, the codes assume executives are opportunistic as only non-executive directors who are financially independent are able to monitor executives and financial incentives are required to align the interests of executives with those of shareholders. Further, consistent with corporate logic, the corporate objectives of L&G and Wesfarmers are stakeholder-oriented and the corporate annual reports depict directors and executives as trustworthy, knowledgeable professionals; whereas consistent with Investor Logic, the corporate annual reports require non-executive directors to be financial independent and use financial incentives to align the interests of executives with those of shareholders.

While Zajac and Westphal (2004) argue that there has been a transition from Corporate Logic to Investor Logic, the evidence presented in this paper indicates that Corporate Logic and Investor Logic co-exist in the sampled texts. Despite only six texts being sampled, this finding is significant because these texts are representative (Crombie, 2009) and span three countries, namely Australia, New Zealand and the UK. Further, the evidence indicates that Corporate Logic and Investor Logic may have merged into a new institutional logic. In this sense, Corporate Logic tempers Investor Logic's harsh assumptions about human behaviour and implications for the independence of the board of director and executive remuneration that is contingent. Combined, Corporate Logic and Investor Logic define how corporate

governance should be and is practiced. This is a pragmatic approach, where investors and regulators are trusting of directors and executives, but only to a point. Codes set out minimum standards of corporate governance, and compliance by directors is attested to in corporate annual reports. Beyond this, corporate annual reports also explain how directors balance the competing interests of stakeholders and both monitor and advise executives.

Bebchuk and Fried (2003; 2006) argue that executives exert power over the board of directors and use this power to enrich themselves at the expense of shareholders. This ties in with Westphal and Zajac's (1998) argument that proxy statements (or corporate annual reports) are rhetorical and symbolic in nature; corporate discourse is designed to persuade stakeholders of the trustworthiness of directors and executives, which, if successful, reinforces directors and executives power to control corporations. It may be that the policies and practices of corporate governance that are described in corporate annual reports are decoupled from how boards of directors make decisions behind closed doors. Further research should investigate how directors and executives think and act in order to determine the extent to which Corporate Logic and/or Investor Logic are embedded in private discourse. Such research should be longitudinal in order to gain insight into the processes of (de-)institutionalisation.

References

[Note: The references are included in the main reference list of the thesis]

Appendix G: Human Ethics Approval

G.1. Introduction

Two applications to carry out interviews with non-executive directors, senior executives, recruitment and remuneration consultants, and representatives of codes issuers were made to the University of Canterbury's Human Ethics Committee. Note that the first application did not mention recruitment and remuneration consultants. This is why a second application was required. Both applications were approved. Reproduced below are the approval letters from the Human Ethics Committee.

G.2. Approval for First Application

Ref: HEC 2009/175

31 March 2010

Neil Crombie

Department of Accounting and Information Systems

UNIVERSITY OF CANTERBURY

Dear Neil

Thank you for your request for an amendment to your research proposal "The Discourse on Executive Remuneration".

I am pleased to advise that this request has been considered and approved by the Human Ethics Committee.

Yours sincerely

Dr Michael Grimshaw

Chair, Human Ethics Committee

G.3. Approval for Second Application

Ref: HEC 2009/175

15 December 2009

Neil Crombie

Department of Accounting and Information System

UNIVERSITY OF CANTERBURY

Dear Neil

The Human Ethics Committee advises that your research proposal “The Discourse on Executive Remuneration” has been considered and approved.

Please note that this approval is subject to the incorporation of the amendments you have provided in your email of 12 December 2009.

Best wishes for your project.

Yours sincerely

Dr Michael Grimshaw

Chair, Human Ethics Committee

Appendix H: Documents for Interviewees

H.1: Introduction

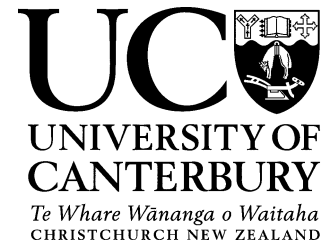
Appendix H includes the documents that were sent to individuals that were invited to participate in the interview phase of this research. There are six documents:

1. An information sheet for non-executive directors and senior executives
2. An information sheet for recruitment and remuneration consultants
3. An information sheet for representatives of code issuers
4. A list of possible interview topics
5. A consent form for participants
6. An agreement of security and confidentiality by researcher form

H.2. Information Sheet for Non-executive Directors and Senior Executives

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THE DISCOURSE ON EXECUTIVE REMUNERATION

Information Sheet

You are invited to participate in the research study: 'The Discourse on Executive Remuneration'. This research is being conducted by Neil Crombie, for completion of a Doctoral Dissertation in the Department of Accounting and Information Systems at the University of Canterbury. This research has been reviewed and approved by the University of Canterbury's Human Ethics Committee.

The objective of this research is to make sense of the discourse on executive remuneration. I have already studied a sample of the codes of practice, regulations and corporate annual reports from New Zealand, Australia and the United Kingdom between 1989 and 2008. I have investigated how the discourse on executive remuneration within these texts has changed over time. For listed companies, the analysis has focused on how their remuneration policies have changed over time. I am now investigating how boards of directors (and their remuneration committees) in listed companies determine their remuneration policies and practices.

I am also investigating how and why organisations such as regulators and professional associations produce codes of practice and regulations on executive remuneration. The research aims to determine the extent to which codes of practice and regulations have influenced the remuneration policies and disclosure behaviour of listed companies.

This research involves interviews with executives and directors of listed companies as well as representatives of regulators and professional associations. The participants may be former or current members of these organisations. Interviews are expected to last between one and two hours. A digital voice recorder will be used to document the interviews, subject to the participants' consent. Participants will be given the opportunity to review the interview transcript. The digital voice recordings and interview transcripts will not be available to anyone other than the researcher and his supervisors.

The results of this research will be published by way of doctoral dissertation, oral presentations, conference proceedings and journal articles. Note that a doctoral dissertation is a public document which is available from the University of Canterbury's Library database. While extracts from the interview transcripts will form part of these publications, the extracts will not be attributed to the participating executives, directors and the companies which they represent, and any identifying material within the extracts will be removed or disguised. For example, "Mr Joe Blogs" would be changed to "Director A" or "Executive A" and "ABC Ltd" will be changed to "XYZ Ltd".

This research is being carried out for the completion of a Doctor in Philosophy in Accounting and Information Systems by Mr. Neil Crombie under the supervision of Prof. Markus Milne and Dr. Warwick Anderson. Their contact details are listed below. Feel free to contact any of us to discuss any concerns you may have about participation in this research study.

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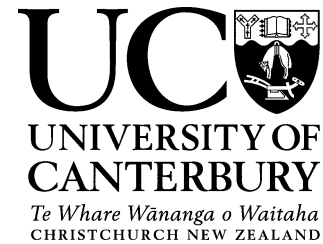
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H.3. Information Sheet for Recruitment and Remuneration Consultants

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The objective of this research is to make sense of the discourse on executive remuneration. I have already studied a sample of the codes of practice, regulations and corporate annual reports from New Zealand, Australia and the United Kingdom between 1989 and 2008. My analysis focused on how remuneration policies have changed over time. I am now investigating how boards of directors (and their remuneration committees) of companies determine their remuneration policies and practices, including the role of remuneration consultants.

I am also investigating how and why organisations such as regulators and professional associations produce codes of practice and regulations on executive remuneration. The research aims to determine the extent to which codes of practice and regulations have influenced the remuneration policies and disclosure behaviour of companies.

This research involves interviews with executives and directors of companies as well as representatives of remuneration consulting firms, regulators, and professional associations. The participants may be former or current members of these organisations. Interviews are expected to last between one and two hours. A digital voice recorder will be used to document the interviews, subject to the participants' consent. Participants will be given the opportunity to review the interview transcript. The digital voice recordings and interview transcripts will not be available to anyone other than the researcher and his supervisors.

The results of this research will be published by way of doctoral dissertation, oral presentations, conference proceedings and journal articles. Note that a doctoral dissertation is a public document which is available from the University of Canterbury's Library database. While extracts from the interview transcripts will form part of these publications, the extracts will not be attributed to the participating executives, directors and the companies which they represent, and any identifying material within the extracts will be removed or disguised. For example, "Participant Blogs" will be changed to "Consultant A" and "Blogs Ltd" will be changed to "Consulting Firm A".

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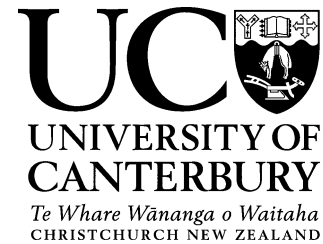
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H.4. Information Sheet for Recruitment and Remuneration Consultants

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THE DISCOURSE ON EXECUTIVE REMUNERATION

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This research involves interviews with representatives of regulators and professional associations as well as executives and directors of listed companies. The participants may be former or current members of these organisations. Interviews are expected to last between one and two hours. A digital voice recorder will be used to document the interviews, subject to the participants' consent. Participants will be given the opportunity to review the interview transcript. The digital voice recordings and interview transcripts will not be available to anyone other than the researcher and his supervisors.

The results of this research will be published by way of doctoral dissertation, oral presentations, conference proceedings and journal articles. Note that a doctoral dissertation is a public document which is available from the University of Canterbury's Library database. As there are few organisations in New Zealand which produce regulations and codes of practice on executive remuneration, it not possible to guarantee anonymity for the representatives of these organisations which participate in this research. However, while extracts from the interview transcripts will form part of these publications, the extracts will not be attributed to the participants and the organisations which they represent. The identity of the participants and the organisations they represent will be disguised. For example, "Participant Blogs" would be changed to "Representative A" and "The Institute of XYZ" will be changed to "Issuer A".

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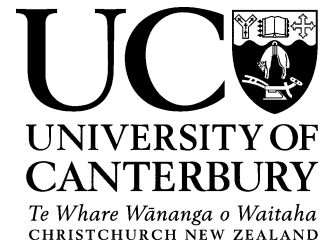
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H.5. A List of Possible Interview Topics

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THE DISCOURSE ON EXECUTIVE REMUNERATION

General topics to be discussed in the interviews

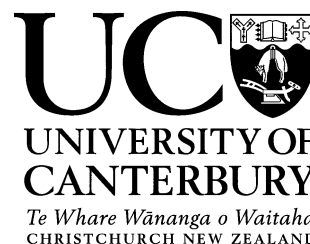
The interview questions will cover the following general topics:

1. Your philosophy on business and remuneration
2. Your background (e.g. education and work experience), particularly what and who influenced your views on remuneration practices
3. CEO remuneration: policies and practices (e.g. what works well and what does not work well?)
4. Executive and non-executive director remuneration (e.g. why are executives remunerated differently to non-executive directors?)
5. The process of setting and awarding CEO remuneration, particularly the role of the board of directors, the remuneration committee and remuneration consultants
6. Challenges faced by the board of directors, remuneration committee and CEO
7. The influence of shareholders' opinions on directors' decisions regarding executive remuneration
8. Reporting remuneration in the annual report and at annual general meetings (if applicable)
9. Regulations and codes of practice on remuneration (e.g. Institute of Directors in NZ, 2005, "Code of Practice for Directors")
10. Public debates on remuneration, particularly the role of the media

H.6. A Consent Form for Participants

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THE DISCOURSE ON EXECUTIVE REMUNERATION

Consent form for participants

I have read the Information Sheet concerning this project and understand what it is about. All my questions have been answered to my satisfaction. I understand that I am free to request further information at any stage.

I know that:

1. My participation in the project is entirely voluntary;
2. I am free to withdraw from the project at any time without disadvantage;
3. All face-to-face or telephone interviews will be audio-taped unless I request otherwise;
4. At the end of the research any raw data on which the results of the research or related publications depend, as required by the University's research policy, will be retained in secure storage for five years, after which it will be destroyed;
5. I may decline to answer any questions if I so wish, without any disadvantage to myself of any kind;
6. The precise questions to be asked in the interview have not been determined in advance, but will depend on the way in which the interview develops. Consequently, although the Human Ethics Committee is aware of the general areas to be explored in the interview, the Committee has not been able to review the precise questions to be used;
7. If the line of questioning develops in such a way that I feel hesitant or uncomfortable, I may decline to answer any particular question(s) and I may withdraw from the interview, without any disadvantage to myself of any kind;
8. I may withdraw from the process at any time without any disadvantage to myself of any kind. If I terminate the interview before its conclusion, or am unable to continue, then the audio-tape and transcript will be destroyed at my request;
9. No remuneration is offered for my participation in this project;
10. The results of the research may be published but my anonymity will be preserved;
11. This project has been reviewed and approved by the Human Ethics Committee of the University of Canterbury.

I agree to take part in this project.

.....
(Signature of participant)

.....
(Date)

H.7. An agreement of security and confidentiality by researcher form

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THE DISCOURSE ON EXECUTIVE REMUNERATION

Agreement of Security and Confidentiality by Researcher

I agree to keep the audio recording and transcript from this interview and any related correspondence confidential and secure.

I agree to keep your participation in this research confidential.

I agree to preserve your anonymity and ensure that any extracts from the interview transcript used in publications do not include any identifying material.

.....
(Signature of researcher)

.....
(Date)

Appendix I: New Zealand's Discourse on Executive Remuneration

Appendix I reproduces Crombie (2010). This paper was presented at the Fourth New Zealand Management Accounting Conference (18-19 November 2010), which was held in Hamilton, New Zealand. The paper was subject to blind peer review before being accepted for presentation at this conference.

The findings presented the paper are similar to those in Chapter 7. While the paper draws on an institutional logics perspective, the paper is underdeveloped compared to the findings in Chapter 7. The paper is reproduced below.

New Zealand's Discourse on Executive Remuneration

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Abstract

Purpose: Zajac and Westphal (1995; 2004) found that US companies have transitioned from corporate (or managerial) to agency (or shareholder) logic. This study examines the institutional logic embedded with New Zealand's discourse on executive remuneration, and how it influences the decision-making of remuneration committees.

Design/methodology/approach: Data are collected from 33 semi-structured interviews with 5 executives, 16 non-executive directors, 7 consultants, and 5 representatives of issuers (who produce codes of best practice). The interviews focused on executive remuneration in New Zealand publicly listed companies.

Findings: Non-executive directors draw on a multitude of rationales to justify or legitimise their decisions regarding executive remuneration. The rationales include: agency, consultant, fairness, human resources, market, motivation, pay-for-performance, and responsibility. However, the market rationale dominated the discourse on executive remuneration. The majority of non-executive directors, executives, and consultants interviewed argued that one executive's remuneration should be comparable to another executive's remuneration.

Research limitations/implications: Both the agency and corporate logics have been institutionalised in New Zealand. However, the dominant remuneration rationales fit with the corporate logic, rather than the agency logic.

Practical implications: As the remuneration rationales are taken-for-granted they offer non-executive directors considerable flexibility in deciding how and how much to remunerate executives. Shareholders and regulators need to be aware of this flexibility.

Originality/value: This study develops and tests a theoretical framework for understanding how institutional logics can influence organisational decision-making.

Type: Research paper

Keywords: Executive remuneration; Institutional theory; Discourse analysis

1. Introduction

Pay-for-performance has become a taken-for-granted catchphrase of corporations, shareholders, media, and the public, yet academic research in New Zealand (Andjelkovic et al., 2002; Gunasekarage and Wilkinson, 2002; Roberts, 2005) and overseas (Rost and Osterloh, 2009; Tosi et al., 2000; Devers et al., 2007) has been unable to evidence a statistically and economically significant relationship between CEO pay and firm performance over time. Academic research indicates that CEO pay is related to firm size, rather than firm performance. This lead Bebchuk and Fried (2004) to argue that CEOs have too much power over boards of directors and are able to set their own remuneration.

This research investigates New Zealand's discourse on executive remuneration, particularly the institutional logics (and high-order cultural frames) which people use to understand and justify organisational decision-making. Zajac and Westphal (1995, 2004) found that the agency logic replaced the corporate logic as the dominant explanation of corporate governance and executive remuneration among US corporations in the mid-1980s. However, they did not investigate alternative remuneration rationales such as pay-for-performance and market, which are documented by Wade et al. (1997), St-Onge (2001), and Point and Tyson (2006). Collectively, these studies suggest that isomorphic pressures influence how organisational actors make decisions. Point and Tyson (2006) argues that the language of regulations, codes of practice and corporate annual reports are converging.

Drawing on new institutional sociology, this research examines how organisational actors conceptualise and rationalise executive remuneration decisions. The research questions are: What institutional logics do organisational actors use to understand and make decisions? How do these institutional logics influence organisational decision-making? The remainder of the paper is organised as follows: literature review, theoretical framework, research method, findings, discussion and conclusion.

2. Literature Review

Institutions are processes and structures which become taken-for-granted by individuals and organisations (DiMaggio and Powell, 1983; Moll et al., 2006). Institutional theory asserts that coercive, normative and mimetic pressure can lead to organisations substantively or symbolically adopting the same structures and processes (DiMaggio and Powell, 1993; Scott, 2008). Regulatory and professional bodies throughout the world have developed codes of

practice to mandate or recommend how companies should be governed (Aguilera and Jackson, 2010; Enrione et al.; 2006). It is taken-for-granted that regulatory and professional bodies should produce codes of practice, but the content of these codes varies between countries. Also, companies have implemented similar executive remuneration structures and processes such as remuneration committees and variable pay schemes (Chambers, 2005). However, researchers have rarely studied how these structures and processes have become take-for-granted.

Institutional logics provide the ideas and meaning that persuades individuals and organisations to adopt certain structures and processes (Thorton and Ocasio, 1999). In an exploratory study, Point and Tyson (2006) found that the language of codes of practice and corporate annual reports in Europe are similar; the discourse had become institutionalised. Zajac and Westphal (1995; 2004) argue that there are two institutional logics underpinning corporate governance (see table 1). The agency logic asserts that shareholders should be suspicious of management, whereas the corporate logic asserts that shareholders can trust management and using their specialised expertise, they can make better decisions than shareholders. These institutional logics imply that different structures and processes are required to govern executives.

	Agency Logic	Corporate Logic
<i>Assumptions about:</i>		
- <i>Top Managers</i>	Fungible agents	Knowledgeable stewards
- <i>The Firm</i>	Nexus of contracts	Unique institution
<i>Concept of resource allocation</i>	Investor capitalism: Diversified investor	Managerial capitalism: Diversified firm
<i>Links to High-Order Cultural Frames</i>	Logic of capital markets	Norm of professional autonomy
<i>Links to Theories of Organisation</i>	Agency theory (Jensen and Meckling, 1976)	Managerialist theory (Chandler, 1962)
<i>Implications for Governance Practices:</i>		
- <i>Compensation</i>	Incentives align interests	Rewards attract and retain
- <i>Allocation of cash flow</i>	Return excess to investors	Retain and reinvest in firm

Table 1: Institutional Logics and Corporate Governance

(Source: Zajac and Westphal, 2004, p.436)

The agency and corporate logics have different rationales for how executive remuneration should be determined. The agency rationale implies that without variable pay executives would not to act in the best interests of shareholders; whereas the human resources rationale (corporate logic) implies that as long as the level of remuneration is sufficient, executives will

act in the best interests of the shareholders. Zajac and Westphal (1995) found that in US companies in the mid-1980s, the agency rationale replaced the human resources rationale in justifying the adoption of long-term incentive plans to shareholders. However, other remuneration rationales were not studied. Wade et al. (1997) and St-Onge et al. (2001) identified other remuneration rationales such as consultant, market, motivation, pay-for-performance, and responsibility (see table 2).

Remuneration Rationales	Explanations of CEO Pay
Agency	Derived from agency theory, the agency rationale describes how the CEO's interests can be aligned with those of shareholders.
Consultant	Remuneration consultants are used to legitimise the CEO's pay and remuneration practices.
Human Resources	Derived from resource dependency theory, the human resources rationale asserts that the CEO is a scarce resource and organisations can use remuneration to attract and retain scarce managerial talent.
Market	The market rationale argues the CEO's pay will depend on the market forces of supply and demand.
Motivation	Derived from expectancy theory, the motivation rationale describes that pay can be used increase the CEO's effort/performance.
Pay-for-Performance	The pay-for-performance rationale argues that to avoid managerial shirking, the CEO's pay should be linked to the firm's (financial) performance.
Responsibility	Derived from the managerial discretion hypotheses, the responsibility rationale states that executive pay rises with their level of responsibility.

Table 2: Remuneration Rationales

Zajac and Westphal (1995; 2004) argue that agency and corporate logics influence organisational decision-making, but did not study whether these rationales are used in the boardroom. For example, boards of directors may want to adopt long-term incentive plans to increase the level of executive remuneration, and use remuneration rationales to legitimise their decisions to shareholders. Olsen and March (2006) argue that organisational decision-making is rational and/or rule-based. It may be that boards of directors (and remuneration committees) draw on various remuneration rationales in order to make decisions that maximise shareholder value. Alternatively, it may be that boards of directors draw on various remuneration rationales because the remuneration rationales confer legitimacy on their decisions.

While the following studies did not examine institutional logic and remuneration rationales, their findings do shed light on these theoretical constructs. Bender (2004, and 2007) and Main et al. (2008) found that the directors, executives and consultants explained executive remuneration in terms which are consistent with the many of the remuneration rationales. Generally, remuneration committees aim to pay for performance, while conforming to the

expectations of shareholders. Further, Perkins and Hendry (2005) found that the market rationale is a key determinant of executive remuneration. Remuneration committees are also concerned with the legitimacy of their decisions and use remuneration rationales to avoid criticism (Main et al., 2008; Ogden and Watson, 2008). However, Beer et al. (2003) found that the pay-for-performance and motivation rationales are used to justify the use of incentive schemes in order to increase the level of executive remuneration, rather than enhance shareholder value.

3. Theoretical Framework

Discourse and action are connected through the decision making of individuals and organisations (see figure 1). Discourse is the realm of ideas and meaning, which is accessed through the production and consumption of texts; whereas, action is the realm of structures and processes (Phillips et al., 2002). Institutional logics influence the preferences, capabilities and decision-making of individuals and organisations. In making decisions, individuals produce texts, which can be temporary or permanent, and carry out actions. For directors and executives, producing texts and carrying out actions are often inseparable. Texts define structures and processes in organisations. As these structures and processes are enacted by individuals and organisations, they can become take-for-granted. Institutions are structures and processes that become self-reproducing, as they enable and constrain future discourse and action. Thus, institutions are underpinned by institutional logics. However, individuals and organisations can change or resist institutions and institutional logics if they are powerful or willing to accept a loss in legitimacy, or there are conflicting institutions and/or institutional logics (e.g. agency vs. corporate logic).

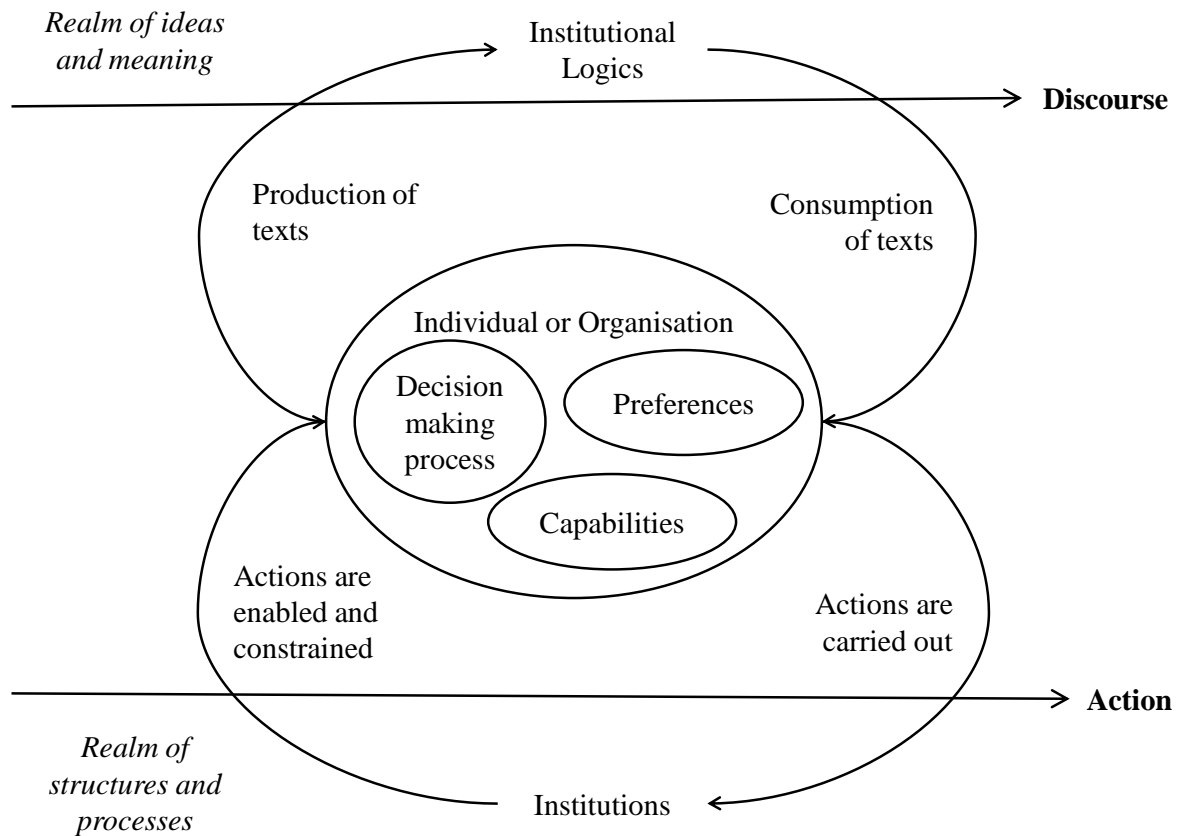


Figure 1: How discourse and action influence organisational decision-making

Codes of practice are produced by regulatory (e.g. Securities Commission), professional (e.g. Institute of Directors) and investor (e.g. Shareholders' Association) bodies. Corporate scandals have led to the institutionalisation of codes of practice (Enrione et al., 2006). Both discourse and action is influenced by codes of practice. The issuers of these codes of practice exert coercive and normative pressure on publicly listed companies to conform to their recommendations. Point and Tyson (2006) and Crombie (2009) found that codes of practice and corporate annual reports use the same remuneration rationales. However, these studies did not examine the decision-making of boards of directors and remuneration committees. Mimetic pressure may also be influencing companies to use the same remuneration rationales. Also, while companies use the remuneration rationales to publicly justify their decisions, boards of directors may not use different remuneration rationales to privately justify their decisions.

4. Research Method

The main objective of this research is to test Zajac and Westphal's (2004) claim that agency logic, not corporate logic, dominates organisational decision-making regarding executive remuneration. The research questions are: What institutional logics do organisational actors use to understand and make decisions? How do these institutional logics influence organisational decision-making? A qualitative research method is employed. Executives and non-executive directors are interviewed to understand how boards of directors (and remuneration committees) of publicly listed companies determine how and how much to remunerate executives as well as what to disclose to the public. Remuneration consultants are also interviewed as they provide data and advice to non-executive directors. Further, representatives of issuers are interviewed as they produce codes of practice which shapes the discourse on executive remuneration.

33 individuals were interviewed including 5 executives, 16 non-executive directors, 6 remuneration consultants, 1 recruitment consultant, and 5 representatives of issuers. Several interviewees could be included in multiple categories, as of the 16 non-executives directors, 9 are former executives, 2 are consultants, and 2 are representatives of issuers. The executives and non-executives directors represented 38 companies that are or were listed on the New Zealand Exchange (NZX). The non-executive directors have held on average 3 directorships in NZX listed companies, and in total several directorships in Australian listed companies. The consultants represented 4 consulting firms. The representatives of issuers represent 3 issuers of codes of practice. The interviews lasted 42.5 hours in total or 77 minutes on average. The interviewees are not identified in the research. Quotes from the interviewees are presented in italics.

The interviews were semi-structured and conducted in person, on the telephone, or on Skype. All of the interviewees were sent an information sheet, a list of general interview topics, and consent forms. Prior to each interview, the interviewee gave verbal or written consent for the interview to be recorded. The interviews covered a range of topics including the principles of remuneration, remuneration committees, disclosure in annual reports, annual general meetings, regulations and codes of practice, shareholders and analysts, the media's reporting of executive remuneration, etc. While interviewees were asked broadly the same questions, the researcher asked many unscripted questions as the interviewees raised points of interest. The final topic covered in each interview was the remuneration rationales, if time allowed.

The researcher described the remuneration rationales and then asked for the interviewees' comments. Often the interviewees had mentioned the remuneration rationales earlier in the interviews, so the interviewees merely stated if they agreed or disagreed with each of the remuneration rationales.

Discourse analysis is the study of "the constructive effects of discourse through the structured and systematic study of texts" (Phillips and Hardy, 2002, p.4). Discourse analysis is both theory and method. The claims to knowledge of discourse analysis are embedded in the theoretical framework (see figure 1), as discourse constructs the social reality of organisations. The interview transcripts are also texts and form part of the discourse on executive remuneration. Through multiple close readings of the texts, the researcher sought to understand how the interviewees think about executive remuneration. The researcher also documented interviewees' professional experience. Commonalities and differences between the interviewees were identified and analysed. The discourse analysis allowed the researcher to understand what remuneration rationales the interviewees used and how the interviewees made decisions. Also, the researcher examined what, if any, institutional logic/s were underpinning the discourse of the interviewees.

5. Findings

Among New Zealand's publicly listed companies, the structure of executive remuneration and the process by which it is determined is homogenous. The main components of executive remuneration are salary, short-term incentives (STI) and long-term incentives (LTI). Salary and total remuneration is set in reference to comparable positions in other organisations. STIs are based on financial and non-financial performance, and are paid out in cash and shares. LTIs are conditional shares or share rights with vesting periods of three to five years. Variable components of executive remuneration are based on organisational strategy. Remuneration committees gather intelligence from consultants and through director networks, and draw on a common set of rationales to justify their decisions. While codes of practice do not influence these decisions, regulations and listing rules do influence what is disclosed. Stakeholders such as shareholders, analysts and media act as a constraint on the decision-making of remuneration committees, as they do not want to make decisions which are seen as illegitimate or outside the realm of the taken-for-granted. These discourse and actions are mapped in figure 2.

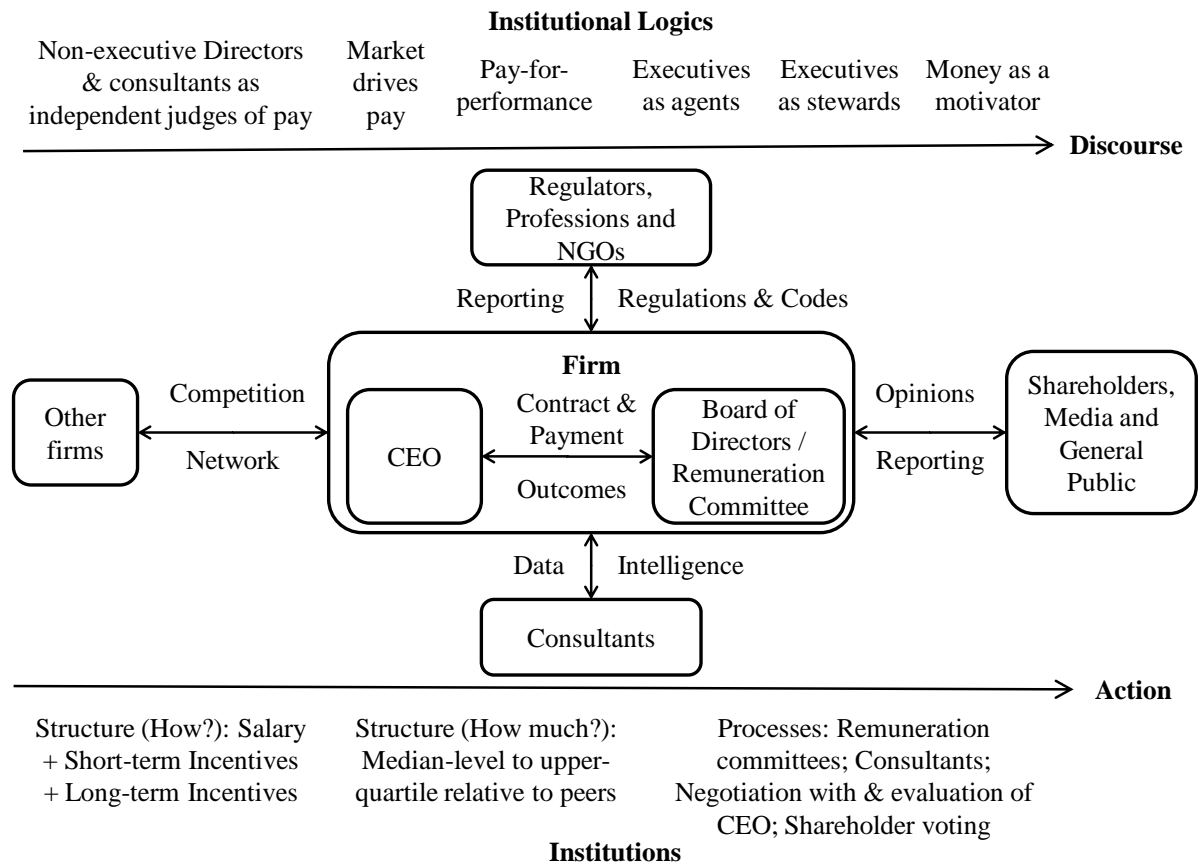


Figure 2: How Executive Remuneration is Determined in New Zealand Publicly Listed Companies

The processes and structures that constitute executive remuneration and the rationales used to justify these processes and structures are detailed in table 3. There are many alternatives within these processes and structures, but there is much commonality. There are many rationales used to justify which alternatives are chosen, but there are few rationales. All non-executive directors except one believed that executives should be paid between median and upper-quartile pay relative to their peers depending on their level of performance; whereas one non-executive director believed that executives should receive lower-quartile pay relative to their peers as executives are also driven by non-financial and intrinsic rewards. However, this non-executive director believed that they did not sit on any remuneration committees because their opinion varied from the generally accepted or taken-for-granted view.

The agency and corporate logics are embedded within the discourse on executive remuneration and provide the underlying rationale for the existing structures and processes (see table 3). Amongst New Zealand companies, a shift from corporate to agency logic is not

evident as both logics are prominent. Non-executive directors are both the shareholders' representatives and the executives' partners. However, non-executive directors view themselves and executives as working together to add shareholder value and knowledge stewards that are entitled to professional autonomy. For example, a non-executive director commented, *"Regulators always regulate too much, they ask for too much material, too much detail, they totally loose the plot as to what really matters..."* This sentiment is common among executives and non-executive directors and extends to their view of analysts and shareholders as well. While the agency logic is present in the discourse, the corporate logic is dominant. Non-executive directors and executives share similar beliefs and ideas about executive remuneration because non-executive directors tend to be either former executives or advisors to executives.

Institutions	Institutional Logics
Structure (How much to pay?) <ul style="list-style-type: none"> - Basic approach, or - Complex approach (job evaluation method) 	Non-executive directors and consultants are independent judges of CEO pay; They are able to objectively determine how much a CEO should be paid (agency and corporate logic)
Structure (How to pay?) <ul style="list-style-type: none"> - Mix of components - Salary - Short-term incentive (STI) - Long-term incentive (LTI) 	Rationales embedded with the discourse on executive remuneration: Agency logic – Agency, market, consultant, pay-for-performance, and motivation; Corporate logic – Human resources, market, consultant, responsibility, and fairness
Processes – Internal <ul style="list-style-type: none"> - Appointment of a CEO - Setting a CEO's remuneration - Setting a CEO's targets - Review an executive's performance 	While non-executive directors are shareholders' representatives (agency logic), they also are executives' partners (corporate logic)
Processes – External <ul style="list-style-type: none"> - Annual report - Annual general meeting - Responding to analysts and shareholders - Responding to media and public 	While non-executive directors want to disclose information to shareholders (agency logic), non-executive directors also feel that analysts' and shareholders' demands for information can be excessive (corporate logic)

Table 3: Institutional Logics and Institutions

The process by which remuneration committees determine executive remuneration is quite homogenous. One non-executive director summarised the process as follows:

"You'd then decide your strategies ex cetera for the next five years... your remuneration would flow out of that... But as you address the remuneration issues... you almost have in your mind the pressures, you know, from society, whether they be pressures from politics or the media... And so, you know, you end up with a bit of a compromise."

In setting executive remuneration, there are two processes which remuneration committees reconcile. First, there is a process of rational decision-making (Cyert and March, 1992),

where organisational strategy influence what performance measures, targets and incentives are used. As one CEO commented, *“we’ve always got a range of targets that are usually fairly highly aligned with our strategic plan’s targets.”* The process that executives and non-executive directors described matched those described in management and accounting textbooks (Anthony and Govindarajan, 2007; Hanson et al., 2005), and by Ferreira and Otley’s (2009) performance management framework. Second, there is a process of rule-based (or legitimacy-based) decision-making (March and Olson, 2006), where remuneration committees make decisions, or at least disclose decisions in a way, that conforms to stakeholders’ expectations. Non-executive directors believed that the most influential or powerful stakeholders are regulators, analysts and shareholders. For example, one non-executive director remarked that they could not recruit a US executive to be CEO because the US executive’s pay expectations were far higher than what shareholders would tolerate, so a local candidate was recruited to be CEO.

Non-executive directors have to reconcile what they believe to be a rational choice with what they believe to be appropriate (i.e. societal expectations). The perceptions of executives and non-executive directors of what is rational are shaped by their experiences and the opinion of their peers and consultants. When discussing how much codes of practice influenced decision-making, one non-executive director noted that, *“the weight goes on the way I have seen it done... [and] the independent consultant, rather than the regulatory body providing tones of opinion.”* However, some non-executive directors believed that consultants are simply used to legitimise the board’s decisions to shareholders. For example, one consultant commented, *“The key thing is that people require an external validation of remuneration.”* Non-executive directors believe that they can motivate executives to add shareholder value through the use of remuneration schemes that are comparable to their peers; whereas, non-executive directors believe that satisfying the demands of shareholders, analysts, regulators, etc is a constraint and does not add shareholder value.

Executives, non-executive directors, consultants, and representatives of issuers use remuneration rationales to understand and explain executive remuneration. These rationales are related to agency and corporate logic, and include agency, pay-for-performance, motivation, market, consultant, human resources, responsibility, and fairness. The interviewees used the rationales to justify their beliefs and decisions they had made. For example, when discussing the company’s LTI, one CEO argued that, *“[it makes] you think*

like a shareholder so you care about the share price. It also aligns your interest in the best terms and the long term with the shareholders.” When these rationales were outlined to the interviewees at the end of the interviews, the majority of interviewees believed that the rationales represented the principles of executive remuneration. This highlights that agency and corporate logics have become taken-for-granted. However, the rationales that are consistent with the corporate logic are often prioritised ahead of those consistent with the agency logic. The most emphasised rationale is that of the market, as one non-executive director expressed, *“if you don’t stay competitive then you risk losing your best people”*.

The agency rationale (part of the agency logic) states that LTIs such as shares or share rights can align the interests of executives with those of shareholders. Many interviewees used the agency rationale during the interview or agreed with it when asked. For example, when outlining the key concepts of executive remuneration at the beginning of the interview, one non-executive director stated that, *“We really try align to their [executives’] motives, their incentives with the shareholders, and those are for long term steady growth and returns...”* However, some interviewees believed that incentives scheme cannot fully align the interests of executives with those of shareholders because executives face no downside risk when performance (or the share price) falls. Executives still receive their salary and often a portion of their STIs even when performance is poor, whereas shareholders can lose a significant portion of their wealth.

The pay-for-performance rationale (part of the agency logic) states that executives’ pay should vary with performance. *“The trick is, as I’ve said, how do we define performance?”*, as one non-executive director explained. Performance is generally defined in financial terms such as revenue and profit. The majority of interviewees believed that executives, particularly the CEO, can influence firm performance. However, the main problem is that incentives can work too well, as one non-executive director remarked, *“People are rational. If you set up performance pay that focuses on a narrow definition of success, you will get the behaviour that leads to that outcome”*. Further, some interviewees believed that economic factors have the most influence on firm performance, so that executives have to work harder when firm performance is poor and vice versa. These interviewees argued that incentive schemes are profit sharing schemes in disguise. Variable pay is linked to performance measures that executives cannot necessarily control because shareholders want executives to be held accountable for firm performance.

The underlying assumption of agency logic is that executives will exert effort when they believe doing so will lead to monetary rewards. This motivation rationale is embedded in the discourse of many of the interviewees. For example, money can motivate executives, as one CEO explained:

“One year the board decided to give me a double STI; it’s only \$50k... it’s not enough money to fundamentally alter your level of motivation. Contrast that [to a larger company], once I got to the senior rank, the amount of money available on STI became very material. One year I got \$700k, I think. Then there’s no question that sort of amount of money motivates your attempts to deliver. No question!”

The interviewees believed that executives have differing motivational profiles. Some are motivated by money and status, whereas others are motivated by the challenge and enjoyment of the job. For example, one non-executive director and former CEO believed that the challenge of job outweighed the importance of money:

“It’s the puzzle really... Decision-making under uncertainty, and trying to get it right... The best CEOs are the ones that are just passionate about business... Those who want to be CEO, they’d do the job for half the pay of being deputy CEO. Of course you would. The job is so fantastic. You’re going to turn it down because of pay? Give us a break.”

The interviewees believed that executives are motivated by extrinsic and intrinsic rewards, but all executives are not motivated by the same factors and to the same degree. Some interviewees believed that incentives are used not to motivate executives, but are used by the board of directors to justify the level of remuneration to themselves and shareholders. One CEO explained:

“You are basically saying people will hold back from doing the best job they can unless you hang a carrot in front of them. I find that offensive! ...The remuneration committee and particularly a board would find it hard to pay market remuneration if it was fixed... So, to get you to the total you need to be competitive, senior executives have an at-risk proportion... [But] I don’t think it really changes people’s behaviour.”

The market rationale overshadowed the other rationales. It is the most emphasised and often the first rationale to be talked about during the interviews. When asked about what are the key guidelines or principles of remuneration, one non-executive director responded:

“In the end, it is always a trade off between ensuring you retain talent or good talent, and not over paying. So there is a temptation if you got a very, very strong performer or performers, maybe you start pushing boundaries... But I am nervous about really pushing the boundary and paying people well beyond the market...”

The market rationale appears to fit with the agency logic, which draws on the higher-order cultural frame of capitalism (Friedland and Alford, 1991). The agency logic argues that markets can allocate resources more efficiently than management. The market rationale states that firms compete for managerial talent with other firms, and have to pay competitively. The market rationale assumes that the market for managerial labour is efficient in pricing (or remunerating) a CEO. However, some interviewees disagreed with these assumptions, as one CEO explained:

“In New Zealand, most of your businesses are actually de-facto government departments. The idea of a war for talent and needing to compete for the best people to run those is actually a load of rubbish... We tend to sort of apply that idea that the market rules the pay and you go [through] those silly job sizing exercises...”

The market rationale fits better with the corporate logic than the agency logic. The market for managerial labour in New Zealand is controlled by non-executive directors, not shareholders. While the corporate logic does not state that non-executive directors and executives will make self-serving decisions, non-executive directors have a managerial perspective in remunerating executives as they are former executives and advisors to executives. The non-executive directors interviewed believed that only they have the expertise to remunerate executives. Shareholders, regulators and the public are not able to remunerate executives because they have not worked as executives and do not understand the complexities of the job. For example, one non-executive director remarked that, *“if [shareholders] don’t like the CEO’s remuneration package, just sell your shares.”* These arguments support the corporate logic and managerial capitalism.

Non-executive directors employ consultants for two reasons: to gain access to intelligence about what their peers are paying executives and to legitimise their decisions to shareholders. The consultant rationale states that remuneration consultants can provide an objective, independent assessment of executive remuneration. The majority of publicly listed companies in New Zealand and overseas employ remuneration consultants (Conyon et al., 2009; Crombie, 2009; Wade et al., 1997). However, interviewees suggested that using

remuneration consultants has led to an upward pressure on the level of executive remuneration. One non-executive director explained:

“[Remuneration consultants’] incentive was to bid the whole market up as much as you could. So... why did the prize get so big? Who was benefiting from the prize? Clearly, the appointed CEO was benefiting, but I suspect the hidden agent in all of this is recruitment agencies and remuneration consultants.”

The human resources rationale is tightly coupled with the corporate logic. It states that executives are knowledgeable stewards, who can be trusted to make decisions to maximise shareholder value without the need for incentives (or coercion). The vast majority of interviewees shared this view of executives. For example, one non-executive director argued:

“Good people are the ones you do not want to lose... [The difference between] what a good performer costs to retain and what can actually be delivered is just is not even worth spending any time talking about it.”

Although interviewees also acknowledged that some executives are self-serving and do not act in the best interests of the company. For example, one non-executive director described how executives in one company put their own interests first: *“[The decision] was driven by the Chief Executive wanting to, you know, make sure they got their bonuses for that quarter.”*

The responsibility rationale is also tightly coupled with the corporate logic. It states that remuneration should be tied to an executive's level of responsibility. Generally, executives in large organisations have more complex jobs as they oversee many people, processes and assets. The responsibility rationale explains why firm size and executive remuneration are highly correlated (Tosi et al., 2000). However, some interviewees argued that the positive relationship between firm size and executive remuneration is not desirable. Firm size is not necessarily a proxy for job complexity. There should be a positive relationship between responsibility and executive remuneration, but it is difficult to measure responsibility. Consistent with the corporate logic, non-executive directors argued that they are the only people able to gauge executives' level of responsibility. One non-executive director explained:

“[It is a] question of complexity. Often big is seen as the definition that drives remuneration and typically there's correlation between CEO remuneration and revenue... The problem is how do you measure complexity? ...Running a very large but very simple business may actually be less demanding and there may be a larger pool of

eligible candidates than running a somewhat a much more complex business.”

The fairness rationale states that executive remuneration should be fair, reasonable and equitable. It is consistent with the corporate logic and duplicates the market rationale because executives, non-executive directors, and consultants define fairness in terms of horizontal equity. For example, one CEO commented that, *“fair and reasonable in my mind would be when there’re no serious anomalies in what we... and someone else might be paying for the equivalent similar job.”* Vertical equity is not a significant concern to remuneration committees. Additionally, fairness is defined in terms of performance, and duplicates the pay-for-performance rationale. One consultant pointed out that, *“There are some people saying fair is equal... and others say equitable in terms to [the executives’] contribution to the business.”* Further, fairness is defined in terms of legitimacy, as one non-executive director explained:

“[In determining executive remunerating] you’d say, ‘Well, given our size, given our turnover and our earnings growth and stuff like that, are we reasonably, fairly positioned?’ And in most cases, we say, ‘Would the chairman feel comfortable justifying this to the media or to shareholders at an annual meeting or a special meeting or whatever?’ And that’s the test.”

Embedded in the discourse on executive remuneration are a multitude of rationales, which are taken-for-granted and fit with agency and corporate logics. While the rationales are taken-for-granted, the interviewees do challenge the underlying assumptions. The rationales represent a pool of ideas that non-executive directors draw upon in making decisions and give them much flexibility. For example, the comparator group is not defined in the market rationale, performance is not defined in the pay-for-performance rationale, and fairness is not defined in the fairness rationale. While non-executive directors do have considerable flexibility in defining these terms and, ultimately, determining how and how much the CEO is remunerated, they are constrained by societal expectations. However, what is taken-for-granted is influenced by non-executive directors, consultants, shareholders, regulators, the media, etc.

There are several reasons why non-executive directors draw on the rationales in making decisions. First, they may perceive there to be no viable alternatives, as the rationales crowd-in and crowd-out what is appropriate. Second, they may believe that certain rationales are

true (or lead to better outcomes than other rationales). Third, they may use the rationales to justify decisions that produce outcomes they desire, even though they do not believe the rationales are true. For example, the pay-for-performance rationale will be used to justify bonuses to shareholders, even though a remuneration committee may believe that incentives do not alter the behaviour of executives. In this way, taken-for-granted rationales can be used to maintain the power or legitimacy of executives and non-executive directors.

6. Discussion

Zajac and Westphal (1995, 2004) found that the institutional logic embedded in the discourse of US corporations changed from corporate logic to agency logic in the mid-1980s. Crombie (2009) found that amongst the largest 50 publicly listed companies in Australia, New Zealand and the United Kingdom that this change is not evident. Instead, both institutional logics were present in the discourse on executive remuneration. Similarly, this paper's findings indicate that both institutional logics are present in the discourse of executives, non-executive directors, consultants, and representatives of issuers. However, the findings also indicate that the corporate logic is more prominent than the agency logic. Non-executive directors believe that they are able to determine how best to remunerate executives, and shareholders and regulators should trust them to do this task. Although the agency logic is embedded within the discourse on executive remuneration as the vast majority of non-executive directors espoused or agreed with the agency rationale at some point during the interviews.

Crombie (2009) postulated that coercive (e.g. laws) and normative (e.g. codes of practice) pressure lead public listed companies to adopt remuneration rationales as principles or policies within their annual reports. Note that New Zealand's codes of practice are voluntary, except the NZX's code but it does not mandate how to remunerate executives. However, the findings of this research indicate that executives and non-executive directors are either unaware of the existence or contents of the codes of practice, or dismissed the codes of practice as unhelpful. For example, one non-executive director admitted that, *"I couldn't cite you the document, neither of them, to be honest. I probably should be able to, but I am not the chairman of the remuneration committee anymore."* At least in New Zealand, codes of practice appear to be a reflection of other codes from around the world and what issuers of the codes perceive to be best practice. In other words, normative pressure is weak. Mimetic pressure is far stronger as non-executive directors are concerned with how their peers are

remunerating executives. Consultants reinforce this mimetic pressure by providing non-executive directors with intelligence on what their peers are doing.

Mimetic pressure has led to remuneration committees in New Zealand publicly listed companies having processes and structures. All of the companies except one, which the non-executive directors had been involved with, employed remuneration consultants to gather intelligence on their peers. All of the companies had similar processes for setting and reviewing executive remuneration. All of the companies remunerated their executives with a mix of salary, STI (mainly based on financial performance), and LTI (mainly based on share price performance). The interviewees viewed these processes and structures as taken-for-granted. These processes and structures are reproduced because the interviewees used the same set of remuneration rationales, particularly market, consultant, human resources, responsibility, fairness, motivation, pay-for-performance, and agency. Non-executive directors believed that in applying these remuneration rationales they are able to maximise shareholder value. They argue that the aforementioned processes and structures are rational and logical. However, non-executive directors do acknowledge that their decision-making is constrained by societal expectations, particularly those of shareholders. Therefore, the decision-making of remuneration committees is both rational and rule-based (Cyert and March, 1992; Olsen and March, 2006).

While mimetic pressure has reduced variation in the processes and structures that constitute executive remuneration, change is continual. All non-executive directors commented on the trend from mainly fixed pay to mainly variable pay, and the increasing disclosure requirements. Further, some companies want to know the leaders in best practice and disclosure, so they follow international trends in executive remuneration. Some interviewees commented that New Zealand follows Australia, who follows the UK and US. This process of institutional change is leading to the convergence of best practice (Aguilera and Jackson, 2010). External events such as the global financial crisis can also lead to institutional change as organisations and actors have to adapt to changing economic and political environments (Greenwood et al., 2002). For example, one consultant commented that, “[during] the Global Financial Crisis is the first time that people have taken pay reductions... that is once in a hundred years.” However, this research has not studied how the process of institutional change occurs, particularly in terms of institutional logic.

7. Conclusion

Executives and non-executive directors draw on remuneration rationales to legitimise their companies' executive remuneration practices. The remuneration rationales are: agency, consultant, fairness, human resources, market, motivation, pay-for-performance, and responsibility. As these rationales are all legitimate, non-executive directors have a lot of flexibility in deciding how and how much to remunerate executives. However, the human resource and market rationales dominate the discourse of non-executive directors. These rationales form part of the corporate logic, which assumes that non-executive directors have expert knowledge in how to remunerate executives. The market rationale forms part of corporate logic, rather than agency logic because the market for managerial talent is controlled by non-executive directors, who are former executives and advisors to executives, rather than shareholders. While Zajac and Westphal (1995; 2004) found that US companies have transitioned from corporate to agency logic, this study shows that while New Zealand companies draw on both logics, the corporate logic is dominant.

A theoretical framework is developed in this research (see figure 1) to explain how institutional logic and institutions influence organisational decision-making. Organisations are both enabled and constrained by institutional logics and institutions. The findings show that mimetic pressure, embodied in the market and consultant rationales, has led companies to imitate their peers. The corporate logic is embedded in the beliefs and thinking of non-executive directors through their experiences and the opinions of others. The agency logic is also embedded in the discourse on executive remuneration. However, some interviewees suggested that the agency rationale and LTIs are used symbolically to appease shareholders, while simultaneously raising the level of remuneration to what executives perceive to be competitive. Again, the corporate logic dominates the discourse on executive remuneration. While the findings explain why organisational decision-making reproduces existing structures and processes, it does not explain how the corporate logic become dominant the discourse on executive remuneration, and whether there will be a move towards the agency logic in the future.

The findings show that non-executive directors have much discretion in determining executive remuneration. The executives and non-executives directors interviewed certainly believe that they are trustworthy and act in the best interests of companies. They often said that maximising shareholder value in the long-term is their main objective. However, the

awareness of codes of practice such as those issued by the Securities Commission, Institute of Directors, New Zealand Shareholders' Association, and Minter Ellison is limited. Also, dominance of the market rationale can lead to upward pressure on executive remuneration because it is set at the median to upper-quartile level. Non-executive directors did not believe that their executives are below average performers, yet some executives are by definition. To overcome these problems and others described in the paper, regulators could consider adopting a mandatory code of practice. But the code need not be prescriptive, as both Australia and the UK have 'comply or explain' approaches, which allows companies to vary from the code as long as they explain why.

The main limitation of this research is that executive remuneration has not been quantitatively studied. The remuneration rationales postulate how and how much executives should be remunerated. Similarly, the interviewees often expressed opposing arguments, which they suspected to be true. For example, the market and consultant rationales lead to upward pressure on the level of remuneration. Future research should study the empirical validity of these arguments. This research explains the pay-for-performance paradox; that is, why is there no economically significant relationship between CEO pay and firm performance when the vast majority of firms have a policy of pay-for-performance? The dominance of the market rationale trumps the pay-for-performance rationale, as total remuneration must always be median or above. However, future research is needed to empirically test this argument.

References

[Note: The references are included in the main reference list of the thesis]